



# For-Benefit Business and the Future of the Corporation

A research agenda

# Foreword



Enterprises that prioritise social and environmental purposes, with profit as a means to achieving those ends, have proliferated in recent years. Fuelled by demand from entrepreneurs, investors, and customers who want to align their choices with their values, they operate through a wide range of traditional and hybrid organisational structures.

The Fourth Sector Group is advancing efforts to examine the role of these ‘for-benefit’ enterprises, which offer a radical departure from the legacy business and economic models that have become the global norm and are threatening the future of humanity and the planet. They comprise a yet largely undefined fourth sector of the economy, emerging at the intersection of the traditional three: the private, public, and non-profit sectors. Despite this fourth sector’s nascence, countless for-benefit enterprises are already developing scalable solutions to social and environmental challenges in ways that complement the best existing efforts of the other sectors.

Reforming legacy business structures, from a linear take-make-waste model to one that is regenerative and equitable, will require a step change in approach. Despite the dedication and ingenuity of many in the business and policy communities and civil society, reform efforts to-date have encountered resistance from some quarters and are not progressing fast enough to address the critical challenges we face. Rather than waiting for incremental changes to legacy models to move the needle, accelerating the fourth sector’s growth has the potential to harness the power of market dynamics to innovate, adapt, and scale new solutions — pointing the way to a sustainable future.

However, research by the Fourth Sector Group and others suggests these for-benefit businesses are confronted with an ecosystem — capital markets, financial reporting requirements, legal frameworks, accounting and regulatory standards — that is not designed to support (and is therefore often an obstacle to) the core logic of their purpose-centred approach. Our analysis is that, lacking a dedicated ecosystem, for-benefit enterprises are forced to rely on the existing for-profit or non-profit ecosystems, impeding their potential to scale and mature, and leading them to make difficult trade-offs that can undermine their purpose or viability. Growth is slow and incremental, rather than organic and exponential.

The Fourth Sector 2030 Initiative aims to develop know-how, tools, and resources that can help overcome those limits. It is a global, multi-stakeholder effort to accelerate the development of an enabling ecosystem for purpose-first, sustainable models of business worldwide. The Initiative is committed to establishing a growing reservoir of knowledge, ideas, and approaches to releasing the potential of for-benefit enterprise and providing a space for stakeholders to come together to learn, plan, and implement needed reforms.

The Future of the Corporation research is an important addition to the literature on the evolving role and responsibilities of business in society. It contributes to the intellectual and historical foundation from which those engaged in the development of the fourth sector can draw lessons, develop models, and build policy proposals.

This report outlines and calls for a comprehensive research agenda focused on the concept, characteristics, and constraints of for-benefit business. It is an important contribution towards understanding the potential of the fourth sector in shaping the future economy.

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#### Above

Professor Julia Black, Gregory Hodkinson and Vimla Appadoo discussing the Principles for Purposeful Business in November 2019

## Introduction

The British Academy's Future of the Corporation programme is the most extensive analysis performed to date on how business should be reconceptualised around corporate purpose to address the environmental, social and political challenges it faces and to take advantage of scientific and technological advances that are in progress.

The programme has an academic foundation in the form of a series of research projects which considered the nature of corporate purpose, culture, and trustworthiness, along with the factors driving change in the way business operates, and the main levers of business policy. It is unique in considering the whole breadth of issues, and in drawing on a wide range of academic disciplines. Alongside this academic foundation, the programme also has extensive links into business itself, which has enabled the academic findings to be informed by real business insight and experience. The programme has proposed a new understanding of the purpose of business:

*'to produce profitable solutions to the problems of people and planet and not to profit from producing problems for people or planet.'<sup>1</sup>*

Building on this foundation, the Future of the Corporation programme brought together 15 groups of business leaders, experts, academics and civil society representatives to discuss the implications of the findings and to assess and refine a set of Principles for Purposeful Business that provide a coherent and comprehensive programme for reform. This report explores the application of the Principles to for-benefit business as an illustration of how the Future of the Corporation framework can assist business with delivering benefit for people and planet. First, though, we give a definition of the fourth sector and for-benefit business.

<sup>1</sup> British Academy (2018), 'Reforming Business for the 21st Century'. Available: <https://www.thebritishacademy.ac.uk/publications/reforming-business-21st-century-framework-future-corporation>

## What is the fourth sector of the economy?

Building on work by a range of academics, practitioners, and policy-makers,<sup>2</sup> the Fourth Sector 2030 Initiative defines the fourth sector as follows:

‘...organisations that make up the fourth sector of the economy – known broadly as purpose-driven or for-benefit enterprises – combine market-based approaches of the private sector with the social and environmental aims of the public and non-profit sectors to address pressing problems. They come in a wide range of models and sizes, from social enterprises, sustainable businesses, cooperatives, civic enterprises, and faith-based enterprises, to family-owned businesses, SMEs, and multi-national corporations who put purpose first.’<sup>3</sup>

### Box 1: The social economy in the EU

The European Commission, which uses the term social economy to describe companies that intend to make profits for people other than investors or owners, states that ‘there are 2 million social economy enterprises in Europe, representing 10% of all businesses in the EU. More than 11 million people – about 6% of the EU’s employees – work for social economy enterprises. They have different legal forms and various objectives ranging from agriculture and banking to provision of employment and sheltered workshops.’

As depicted in the table and diagram reproduced Overleaf as Table 1 and Figure 1, the emerging fourth sector encompasses hybrid organisations that combine characteristics from public, private, and non-profit sectors.<sup>4</sup> As the diagram indicates, in recent decades the private sector has been shifting as businesses seek to curtail their negative externalities and distribute the benefits they generate more broadly,<sup>5</sup> giving rise to new forms of business that embed those norms in their core business model, corporate culture, and governance.<sup>6</sup> In parallel, governmental and non-profit organisations have increasingly adopted business approaches in the quest for improved efficiency, responsiveness, and adequate funds to address growing demands.<sup>7</sup>

The diagram also depicts an ecosystem of fourth sector enablers and professional services that are emerging to meet the specific requirements of for-benefit businesses. These include integrated assessment and reporting standards and tools; impact investors who seek social and environmental impacts alongside profits, specialised technical assistance and training offerings; and social enterprise incubators and accelerators. However, the fourth sector’s ecosystem is nascent and fragmented, and not always well tailored to the unique needs of for-benefit enterprises, often creating difficult trade-offs and challenging their ability to deliver on their mission while growing to scale.<sup>8</sup>

Researchers and practitioners describe the growth of the fourth sector as a logical evolution from the current three-sector model, but it remains a novel concept for

2 See for example, U.K. Government Department for Business & Innovation Skills, *A Guide to Legal Forms for Social Enterprise* (2011); Secretariat-General Ibero-America and IE Business School Center for the Governance of Change, *Business with Purpose and the Rise of the Fourth Sector in Ibero-America* (2019); Julie Battilana & Matthew Lee, “Advancing research on hybrid organizing—insights from the study of social enterprises,” *The Academy of Management Annals* (2014) 8(1), 397–441; Megan Alessandrini, “Towards a fourth sector?: Australian community organisations and the market,” *Third Sector Review*, Vol. 16, No. 1, 2010: 125-143; Gib Bulloch, “Towards a Fourth Sector Skill Set,” *Stanford Social Innovation Review* (2014); Linda O. Smiddy, “Corporate Creativity: The Vermont L3C & Other Developments in Social Entrepreneurship,” 35 *VT. L. REV.* 3, 5 (2010); Thomas Kelley, “Law and Choice of Entity on the Social Enterprise Frontier,” 84 *TUL. L. REV.* 337, 337 (2009); Robert A. Katz & Antony Page, “The Role of Social Enterprise,” 35 *VT. L. REV.* 59, 91–92 (2010); Ofer Eldar, “The Role of Social Enterprise and Hybrid Organizations,” (Yale Law & Economics Research Paper No. 485, 2014).

3 Fourth Sector 2030 Initiative (2020), ‘Leveraging Private Enterprise to Achieve the SDGs’. Available: <http://www.fourthsector2030.global/>

4 Michelle J. Stecker, “Awash in a Sea of Confusion: Benefit Corporations, Social Enterprise, and the Fear of “Greenwashing,” *Journal of Economic Issues* (2016) 50:2, pp. 373-381; Chin-Ken Lin, Ming-Fen Li, “Entrepreneurial Social Enterprises with Neo-Fifth Discipline—The Emerging Reciprocity Organization,” *American Journal of Industrial and Business Management* (2016) 06 pp. 45-59.

5 See M.A. Latapí Agudelo, L. Jóhannsdóttir, & B. Davídsdóttir, “A literature review of the history and evolution of corporate social responsibility,” *International Journal of Corporate Social Responsibility* (2019) 4, 1. Available at: <https://doi.org/10.1186/s40991-018-0039-y>

6 See for instance John Elkington, “25 Years Ago I Coined the Phrase “Triple Bottom Line.” Here’s Why It’s Time to Rethink It,” *Harvard Business Review* (2018). Available at: <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it> ;

7 Julie Battilana, Matthew Lee, John Walker, & Cheryl Dorsey, “In Search of the Hybrid Ideal,” *Stanford Social Innovation Review* (Summer 2012) pp. 50-55.

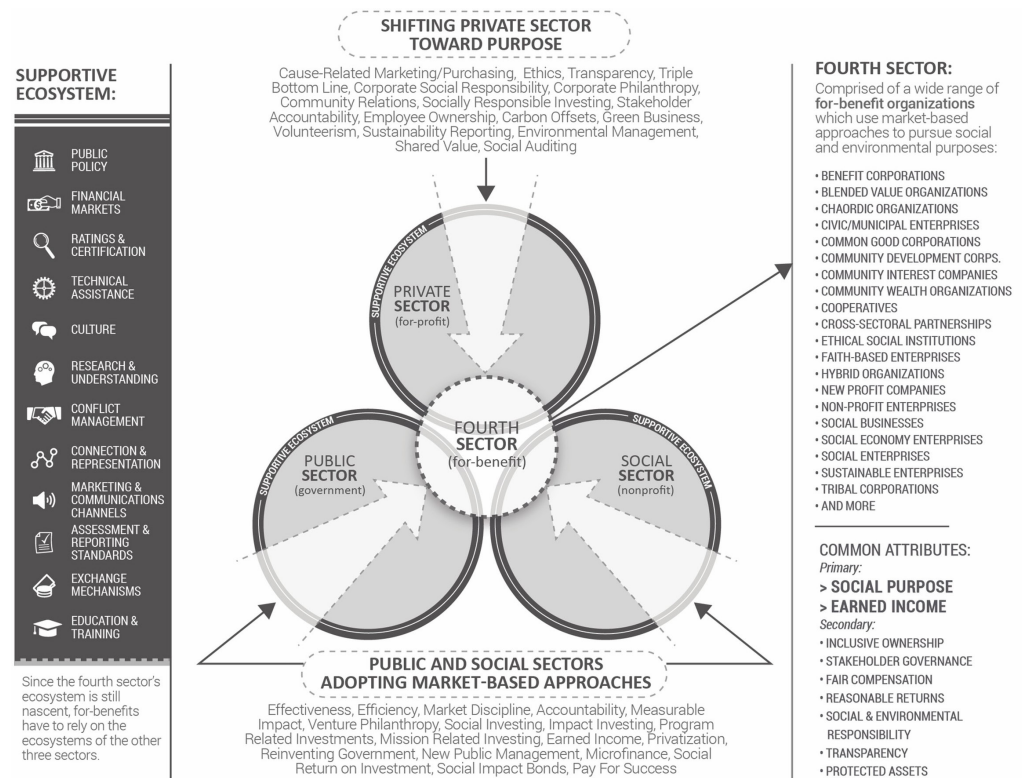
8 International Finance Corporation, *Creating Impact: The Promise of Impact Investing* (2019); Brett H. McDonnell, “Benefit Corporations and Public Markets: First Experiments and Next Steps,” *Seattle University Law Review* (2016) Vol. 40 pp. 717-742; Battilana et al. (2012) op. cit.

many business leaders, scholars, and policymakers.<sup>9</sup> This category of enterprises goes by many names, including the social economy, the solidarity economy, and others.<sup>10</sup> Despite the novelty of the sector and range of terminology, many for-benefit organisations and businesses encompassed by this sector are familiar and established. They include social enterprises, community interest companies, and some co-operatives, which are increasingly widespread. The range of organisations listed in Figure 1 as comprising the fourth sector is of interest because it shows similarities between a diverse range of models that may not describe themselves as part of a unified sector of the economy.

**Table 1: Comparison of sectors of the economy.**  
**Source: Fourth Sector 2030 Initiative**

	FIRST SECTOR ("public")	SECOND SECTOR ("private")	THIRD SECTOR ("not for profit")	FOURTH SECTOR ("for-benefit")
<b>Organizations</b>	governmental entities	for-profit businesses	non-profit organizations	for-benefit organizations
<b>Legal Structure</b>	governmental	for-profit	non-profit	mixed
<b>Primary Purpose</b>	public benefit	private wealth	public benefit	public benefit
<b>Primary Revenue</b>	taxes	earnings	donations and earnings	earnings

**Figure 1: Depiction of relationship between private, public and social sectors and the diversity of forms in the fourth sector.** **Source: Fourth Sector 2030 Initiative**



9 Battilana et al. (2012) op. cit.; Bob Doherty, Helen Haugh, and Fergus Lyon "Social Enterprises as Hybrid Organizations: A Review and Research Agenda," *International Journal of Management Reviews* (2014).

10 European Union & OECD, *Policy Brief on Scaling the Impact of Social Enterprises: Policies for social entrepreneurship* (2016); J. Jiménez, & A.C. Morales, "Social economy and the fourth sector, base and protagonist of social innovation", *CIRIEC-España, Revista de Economía Pública, Social y Cooperativa* (2011) no. 73, Special Issue, p. 33-60; Olga Memedovic, Theresa Rueth, and Briggitt Roveti, *The Role of the Social and Solidarity Economy in Reducing Social Exclusion*, Report on Budapest Conference on the Role of the Social and Solidarity Economy in Reducing Social Exclusion, organized by UNIDO and the Ministry for National Economy of Hungary, 1-2 June 2017.

## What is the Fourth Sector 2030 Initiative

The Fourth Sector 2030 Initiative is a global, multi-stakeholder effort to accelerate the development of an enabling ecosystem for purpose-driven, sustainable models of business worldwide. The initiative is committed to establishing a growing reservoir of knowledge, ideas, and approaches to releasing the potential of for-benefit enterprise and to providing a space for stakeholders to come together to learn, plan, and implement needed reforms. All with an eye toward achieving the UN Sustainable Development Goals.

Fourth Sector 2030 serves as a platform for collective leadership and action to advance the following strategic priorities globally:

- Enhance knowledge and raise awareness about for-benefit enterprises and the fourth sector.
- Develop more enabling policy and regulatory environments for the fourth sector.
- Promote new business and investment models that are aligned with for-benefit enterprises.
- Increase educational and training opportunities for fourth sector practitioners and leaders.
- Increase the flow of resources toward fourth sector development.
- Develop local and regional hubs to foster collaboration and accelerate fourth sector development in communities.

To advance these priorities, the initiative brings together stakeholders from business, finance, government, philanthropy, academia, civil society, international organisations, and development institutions to collaborate on a mutually reinforcing set of activities.

## Towards a research agenda for the fourth sector

The British Academy has participated in a number of initiatives exploring the links between its Future of the Corporation programme, which is currently in its third year, and other efforts to address underlying concerns about the role of business in society. The Fourth Sector 2030 Initiative is one of these, and this engagement has highlighted the similarity between the concept of for-benefit business as described above and the concept of purposeful business proposed by the Future of the Corporation's 2019 paper, *Principles for Purposeful Business*.<sup>11</sup>

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11 British Academy (2019), 'Principles for Purposeful Business'. Available: <https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business>

Understanding how the Future of the Corporation programme's research relates to other ideas and initiatives will help to establish clarity for businesses and policymakers. This report, therefore, offers an opportunity for readers to engage with the fourth sector and for-benefit business and consider how they might apply the Future of the Corporation's Principles for Purposeful Business. The main contribution of this report is to set out a research agenda to develop new insights and address critical issues around the development of the fourth sector.

For the purposes of this report, we employ the definitions of the *fourth sector* and *for-benefit organisations* as described above and as indicated in Table 1 and Figure 1. Both for-benefit business and purposeful business regard purpose as the central characteristic, while also embracing the need for profit to deliver that purpose. The main difference between the approaches is that the Future of the Corporation conclusions have highlighted the importance of a universal approach whereby changes to corporate law and associated legal changes would apply to every business regardless of form, aiming to create a level playing field of rules and incentives. A fourth sector approach, on the other hand, creates a parallel policy and market regime that applies only to businesses which opt to adopt a for-benefit form.

Nonetheless, given that for-benefit enterprises are examples of purposeful business, the application of the Principles for Purposeful Business can be an enabling mechanism for creating new for-benefit enterprises, transforming existing enterprises and corporations, and reforming policy to provide an appropriate framework — of law, regulation, ownership, governance, measurement, performance, finance, and investment. So in this paper, we seek to highlight important avenues for further research around the development of the fourth sector and the practice of for-benefit business.

## Methodology and purpose of this paper

This paper does not seek to evaluate the fourth sector or for-benefit business, but rather to highlight where further research would help to clarify the concepts, approaches, and policies that might enable the development of the fourth sector and for-benefit business. The paper should be considered a starting point for further discussion. For the Future of the Corporation programme, it is also an important step in attempting to map out how the Principles for purposeful business could be applied to other approaches for reforming business.

The Future of the Corporation programme did not conduct any new research to prepare this report; it relied on the findings of the Future of the Corporation programme, alongside primary and secondary research on the fourth sector and for-benefit business conducted by the Fourth Sector 2030 Initiative. Several workshops and discussions with fourth sector informants have enabled some initial comparison of the underlying concepts to facilitate the production of this paper, but there is still a broad agenda for further research and analysis to be undertaken.

An initial mapping of the findings of the Future of the Corporation programme that could inform future research for the fourth sector is presented in parts 2 and 3 of this report, alongside a series of boxes highlighting questions for further research relevant to the fourth sector. Part 4 continues the discussion of the general implications of the Future of the Corporation research for the development of the fourth sector.



# Part 1: Evidence from the Future of the Corporation landscape review

The Future of the Corporation research, published in 2018, reviewed the existing literature and introduced new thinking around 11 aspects of the corporation.<sup>12</sup> In this second part of this report, we revisit the elements of this research that provided academic evidence to demonstrate both the limitations of current corporate forms and values, and some of the possibilities for future structures.

**Below**

Salts Mill building at Caroline Street allotments, Saltaire, West Yorkshire, UK

As we summarise the findings of the research papers, we consider the implications for the fourth sector and for-benefit business in a series of boxes highlighting avenues for further research.



## History

From the earliest records of goods being traded in the 3rd millennium BC, the law has evolved to include business concepts and practices still recognisable today.<sup>13</sup> The corporate form spread through medieval Europe and was adopted by municipalities, towns, and universities for political, religious, educational, and civic purposes, organised through the medieval guilds.

### **Box 2: Fourth Sector Research Agenda:**

What lessons from an historical analysis of the emergence and institutionalisation of the private and non-profit sectors could guide thinking on the evolution of the fourth sector of the economy?

The early modern corporation was an instinctively and inherently social entity. The global chartered trading companies of the 17th to 19th centuries, backed by the imperial ambitions of their governments, were mandated to increase trade and economic prosperity, but simultaneously expected to provide employment, housing, and medical and educational services.

However, the scale and power of corporations eventually raised similar concerns to those of the contemporary era, leading to antitrust legislation and greater regulatory scrutiny. In Britain, the Registration Act of 1844 permitted anyone to register a corporation, and under the Joint Stock Company Act of 1856, firms no longer depended on Parliament to incorporate, ending the statutory link with social purpose.

While some corporate philanthropists initiated welfare plans, as corporations grew larger and more powerful, their scale became a central issue in politics. Explicit in these protests was the apparent divergence where a corporation could exploit workers and consumers while donating large sums to charitable causes. In the U.S. Congress passed the Sherman Antitrust Act in 1890. The National Labor Relations Act of 1935 was another key step to control the perceived excesses of big business.

The period from 1950 to the 1980s proved to be the heyday of worker-orientated, industrial paternalism. By the 1990s, corporate performance was measured in shareholder value rather than jobs. There were exceptions — in the UK, organisations like the Co-operative Group prospered, for example — but the ideology of profit-maximisation remained dominant.

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13 This section summarises findings from Davoudi, L., McKenna, C. & Olegario, R. (2018), 'The Historical Role of the Corporation in Society', *Journal of the British Academy*, 6(s1)

## Technological change

The transition to the industrial era in the late 19th century brought a fundamental shift in the scale, scope and structure of firms.<sup>14</sup> An equally profound transition to a digital era is now underway, causing firms and policymakers to rethink basic assumptions about what corporations do and why.

Firms are shifting from hierarchical to platform models that bring users and providers of services together more efficiently. In a digital economy, the bigger a firm is, the bigger it is likely to become. Large firms spend more on technological innovation, impacting the nature of work and numbers of jobs. Transaction costs between firms are falling and require less human intervention. The greater transparency offered by technological processes makes it easier to resolve disputes and problems. On the other hand, the trend is from vertically integrated firms to horizontally specialised structures with deep expertise in a single narrow area, and from stand-alone firms to ecosystems of interacting firms and individuals who co-evolve.

### Box 3: Fourth Sector Research Agenda:

What options do the fourth sector and for-benefit business models provide for resolving the tensions that arise from technological disruption, such as the impact of automation on the future of work, the erosion of privacy, and the ethics of genetic engineering? How do for-benefit technology companies integrate social and environmental objectives into their approaches to innovation, product development, and revenue generation?

Elements of the transition are already in place. The emergence of tech giants has highlighted the superiority of platform-based business models in markets for digital goods. However, government policies are ill-equipped to deal with such corporations with regulations deriving from the pre-digital era. Changes in firm size and scope are occurring more rapidly than changes in internal organisation, and yet more rapidly than changes in institutional structures.

These lags are creating tensions between traditional and digital firms, and between digital firms and policymakers, with management and institutional innovation needed. Uber, which claims to be a platform for taxi services, provides an informative example. It has created tensions with traditional taxi firms and faces pressure from regulators, but people who use Uber value its features, low cost, and lack of hassle.<sup>15</sup> In advanced economies, there is a widening gap between the growing digital economy and the shrinking industrial economy, where traditional firms often consolidate to counter the new threat. This process may ultimately be socially beneficial, but the short-term costs are huge.

Examples of specific technologies likely to disrupt large businesses in the next decade include big data and AI, blockchain and smart contracts, computer vision, quantum computing, and 3D printing — technologies that substitute for the human abilities to think and perform mental tasks, rather than our ability to perform physical tasks. But many technologies are also set to replace and reallocate labour, with significant social implications.

<sup>14</sup> This section summarises findings from Birkinshaw, J. (2018), 'How is Technological Change Affecting the Nature of the Corporation?', *Journal of the British Academy*, 6(s1); and Hamdani, A., Hashai, N., Kandel, E. & Yafeh, Y. (2018), 'Technological Progress and the Future of the Corporation', *Journal of the British Academy*, 6(s1)

<sup>15</sup> See for example reporting of fines from regulators in France and Germany <https://www.reuters.com/article/us-france-ubertech-court-idUSKCN0Y1DQ>. And reporting of strikes by French taxi drivers: <https://www.reuters.com/article/us-france-uber-idUSKBN-OP50RX20150625>

## The concept of corporate purpose

What are corporations for?<sup>16</sup> The Future of the Corporation research on purpose started by examining the moral basis upon which societies become entitled to make claims on corporations, through the principle of reciprocity:

1. Corporations rely on society's legal system for adjudication and protection.
2. They rely on access to scarce resources that might otherwise be deployed elsewhere.
3. They are a constant source of social and economic and environmental disruption as they undertake their business.

### Box 4: Fourth Sector Research Agenda:

What wider lessons about the integration of corporate and social purpose can be derived from the experience of organisations operating in the fourth sector? Who decides what constitutes a legitimate social purpose for a for-benefit firm to pursue, and how? What are the barriers to embedding a commitment to purpose? What range of internal and external mechanisms keep for-benefit companies accountable to their purpose? Does the efficacy of these vary by jurisdiction, industry, scale, or context?

This gives rise to the concept of purpose, which is crucial in considering the moral evaluation of corporations. Two types of purpose are needed to explore the role of corporations in society. *Social purpose* concerns the contribution that a corporation makes to realising societal goals, and *corporate purpose* concerns the goals the corporation should actively pursue. A social purpose could be directly incorporated into a corporate purpose or realised through indirect means, such as taxation.

An important question for policymakers and business practitioners is whether corporations ought to serve a social purpose and whether they ought actively to pursue that social purpose as part of their corporate purpose. The research considered these questions at length, as well as associated issues of how corporate purpose can be articulated, pursued, and measured.

On one side, arguments for an indirect, or minimalist, approach to social purpose — where it is not actively pursued and the corporate purpose is narrowly defined by financial goals — tend to rely on efficiency and market competition.<sup>17</sup> However, because capitalism is a system of constant growth, the operations of firms continuously raise complex moral issues that cannot be reduced to the efficient allocation of resources.

This can steer arguments towards a direct, or maximalist, approach to social purpose, where it is directly integrated as an active component of corporate purpose. But in this case, too, pervasive market failures suggest that social purpose cannot be left entirely to the corporation, because at present, they lack the ability to judge and balance competing stakeholder interests. This highlights the need for a comprehensive approach, which not only makes proposals on how social purposes are integrated into corporate purposes, but also how supporting mechanisms like governance and measurement ensure that the corporation is not left alone to set and monitor its social purpose.

16 This section summarises findings from Hsieh, N., Meyer, M., Rodin, D. & van 't Klooster, J. (2018). 'The Social Purpose of Corporations: A Literature Review and Research Agenda', *Journal of the British Academy*, 6(51)

17 For example, the paper refers to Joseph Heath's work in two publications. Heath, J. (2004). 'A Market Failures Approach to Business Ethics', in B. Hodgson (ed.) *The Invisible Hand and the Common Good, Studies in Economic Ethics and Philosophy* (Berlin, Springer), 69–89. Available: [https://doi.org/10.1007/978-3-662-10347-0\\_5](https://doi.org/10.1007/978-3-662-10347-0_5). And Heath, J. (2014). *Morality, Competition, and the Firm: The Market Failures Approach to Business Ethics* (Oxford, Oxford University Press). Available: <https://doi.org/10.1093/acprof:osobl/9780199990481.001.0001>

Measurement of corporate purpose, and any social purpose it contains, is one of the most complex challenges facing corporations. Most current measures of corporate purpose are accounting measures. In relation to social purpose, holistic action-guiding measures for environmental, social, and governance impacts are also used. However, none is yet satisfactory, and measurement remains arguably the most important challenge in giving corporate and social purpose ‘bite’.

## Trustworthiness

Since the global financial crisis in 2008, corporations have faced a crisis of trust, with growing sentiment against elites and big business and a perceived need to re-establish public regard.<sup>18</sup> The Future of the Corporation research outlined five factors that trigger particular rights to trustworthiness and a concomitant duty on corporations: market power, subordination, the absence of choice, the need to preserve systemic trust, and corporate political power which might undermine a state’s legitimacy.

A trustworthy corporation is defined as one with a robust disposition to fulfil its commitments, providing rational grounds on which another party can rely. A commitment involves an overriding obligation to act (or not act). It transcends corporate aims, including profit, and offers accountability if the obligation is not met.

### Box 5: Fourth Sector Research Agenda:

How can we compare trustworthiness of organisations in different sectors? Can we draw conclusions about the trustworthiness of for-benefits in comparison to for-profits or non-profits, and whether this varies by type of stakeholder (such as shareholder, employee, regulator, member of the public), sector or geography? How should for-benefit enterprises balance different perceptions of trust or legitimacy between different stakeholder groups? Are there any generalised lessons that can be learned from for-benefits in terms of their approach to being trustworthy?

Not all breaches undermine the trustworthiness of a corporation. But being worthy of reliance involves how the corporation is structured, resourced, incentivised, and motivated. Crucially, it may be very costly to the corporation. Making hitherto implicit commitments explicit, and making one’s commitments enforceable by others, are two ways of demonstrating reliability.

External measures — derived from the state, or professional bodies, unions, and consumer groups — may make internal measures more reliable. Reputation provides another source of evidence of reliability. People may also trust systems, groups, or societies because of the qualities of one individual.

Legitimate frustration and injustice lead to a sense that society needs to reaffirm control over, and restore trust in, corporations. This will involve both controlling measures (such as regulation, vigilance, threat, or punishment) and measures to instil values, culture, and purpose to corporations — increasing the social capital and rewards for trustworthy behaviour, and structuring markets in a way that avoids a ‘race to the bottom’.

<sup>18</sup> This section summarises findings from Kirby, N., Kirton, A. & Crean, A. (2018), ‘Do Corporations have a Duty to be Trustworthy?’ *Journal of the British Academy*, 6(s1); see also Crean, A., Gold, N., Vines, D. & Williamson, A. (2018), ‘Restoring Trust in Financial Services: Governance, Norms and Behaviour’, *Journal of the British Academy*, 6(s1)

## Culture

The concept of organisational or corporate culture is elusive, so that there is disagreement and confusion as to its precise definition, importance, and measurement.<sup>19</sup> The study of corporate culture draws on the disciplines of business ethics, management studies, psychology, anthropology and economics. The Future of the Corporation research explored notions of culture and the frameworks most often used to measure it. It set out different views on how culture can be operationalised and moulded within an organisation and considered the relationship between corporate culture and corporate purpose.

### **Box 6: Fourth Sector Research Agenda:**

What lessons can be derived from established for-benefits about the relationship between purpose and organisational culture? How is culture linked to the metrics and incentives that shape employee behaviour? How is it linked to structural features, such as ownership and governance? How is corporate culture preserved or transformed in established for-benefit firms through mergers, acquisitions, public tenders, and other significant transitions?

Culture is often seen as the soft side of business, but it is critical for the successful implementation of strategy, for both business performance and how the corporation operates in a socio-political context. When aligned with personal values, drivers, and needs, culture can unleash tremendous amounts of energy. On the other hand, a culture that is misaligned with corporate strategy and purpose can inhibit change.

Frameworks for measuring organisational culture may be quantitative, qualitative, or a combination. Our research notes, however, that there is little consistency amongst different methodologies and no pre-eminent approach.

To be more than empty words, culture needs to be embedded in any organisation's practices. There are many ways of achieving this. For example, 'innovation parenting' aims to encourage employees to internalise the values of the company, and leaders to flatten hierarchies and trust employees to explore creative ways of problem-solving. Other factors in operationalising culture include employees' demands and changing preferences (particularly for flexibility and autonomy), the building and work environment, workplace diversity, and leadership. The role of leadership in organisational culture is widely debated, with contrasting views as to whether it is crucial or irrelevant, and examples illustrating both sides. The more moderate views acknowledge that the extent to which leadership matters to culture depends on factors such as the stage of the organisation in its lifecycle, the presence of a need for change (such as a crisis), and the ability of the leaders.

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This section summarises findings from Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', *Journal of the British Academy*, 6(s1)

## Part 2: Principles and pathways

The Future of the Corporation research concluded that the purpose of business is to produce profitable solutions **to the problems of people and planet and not to profit from producing problems for people or planet.**<sup>20</sup> This call was placed alongside a need for cultures of values and trustworthiness that enable the delivery of corporate purposes. For organisations considering becoming for-benefits or policymakers considering the framework for a fourth sector, this framing of corporate purpose provides a useful point of reference.

Given this, in this part of the report, the Principles for Purposeful Business that arise from the Future of the Corporation research are presented, with a view to highlighting their relevance to some of the questions that business leaders and policymakers may ask about the fourth sector and for-benefit business. We examine the Principles for Purposeful Business in further detail, drawing on the four Future of the Corporation working papers released in 2019, each of which is used to explore a pair of interrelated Principles.<sup>21</sup> We then review the pathways for reform that the Future of the Corporation programme has identified. In both cases, we are highlighting the implications for the fourth sector and for-benefit business, in terms of research questions, in accompanying boxes.



20 British Academy (2018), *Reforming Business for the 21st Century*. Available: <https://www.thebritishacademy.ac.uk/publications/reforming-business-21st-century-framework-future-corporation>

21 See appendices for full details of 2019 working papers

## The Principles for Purposeful Business

The Future of the Corporation programme followed the 2018 landscape review explored above with a series of consultations with experts, business leaders, and academics to flesh out the proposed framework around corporate purpose. This culminated in eight new Principles covering the various aspects of policy and practice that determine how corporations operate (see Box 3 below). The ‘Principles for Purposeful Business’ were published in a second report in November 2019, which also explored pathways to change.<sup>22</sup>

The Principles for Purposeful Business provide a universal basis for an operating environment where the default is purposeful business. The Principles are not prescriptive: they embrace the multiple forms, locations, sizes, and models of business — provided the business is organised around a purpose. The Principles can, therefore, be applied to a wide range of policy and practice questions relating to business.

### **Box 7: The Principles for Purposeful Business:**

1. Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them.
2. Regulation should expect particularly high duties of engagement, loyalty, and care on the part of directors of companies to public interests, where they perform important public functions.
3. Ownership should recognise obligations of shareholders and engage them in supporting corporate purposes, as well as in their rights to derive financial benefit.
4. Corporate governance should align managerial interests with companies’ purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company culture, and in company policies and decision-making processes.
5. Measurement should recognise impacts and investment by companies in their workers, societies, and natural assets — both within and outside the firm.
6. Performance should be measured against fulfilment of corporate purposes and profits measured, net of the costs of achieving them.
7. Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes.
8. Corporate investment should be made in partnership with private, public, and not-for-profit organisations that contribute towards the fulfilment of corporate purposes.

22 British Academy (2019), *Principles for Purposeful Business*. Available: <https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business>



## Corporate law and regulation (Principles 1 & 2)

The law defines the corporation. At present, the law in many jurisdictions defines the duties of directors as being to promote the success of their companies for the benefit of their shareholders. In some cases, corporate law places more emphasis on the company's success, in others on shareholder benefits, and in others requires companies to take account of the long term and the interests of stakeholders in promoting the success of the company. The law is sometimes prescriptive in laying down how companies should operate and often enabling in permitting companies to adopt the structures and practices they believe to be best suited to their activities.

### Box 8: Fourth Sector Research Agenda:

#### What are the implications of legal form for the success of for-benefit businesses?

Purpose-driven firms like Novo Nordisk could be considered for-benefits, although they do not explicitly identify as such. It highlights its commitment to purpose throughout its public documents, and has embedded triple bottom line accounting in its corporate bylaws. Its ownership structure enshrines a controlling interest for the Novo Nordisk Foundation, whose "focus is to improve lives of people through better health, education and the development of a knowledge-based sustainable society." And while it has succeeded in the current environment of finance, regulations, accounting, and policy that is largely oriented towards profit-maximisation, the CEO reports coming under pressure from traditional shareholders to prioritise financial objectives. This highlights a need for further research into the implications of the legal form on the success of, or challenges faced by, for-benefits. Such research would need to consider jurisdiction and other factors highlighted by the Future of the Corporation research such as culture, governance and performance.

The Future of the Corporation findings suggested that the law should require companies to define their purposes and demonstrate how their constitution — ownership, governance, measurement, performance, and incentives — is consistent with delivery of their purposes. The importance of requiring boards to specify purposes beyond profits is that this provides them with some protection against external interventions, for example by hedge-fund activists seeking to change their purposes for short-term gains.

The Principle on corporate law does not suggest lawmakers seek to determine corporate purposes. On the contrary, the Future of the Corporation research highlighted the value of as great a diversity in corporate purpose as possible, provided that the condition of not profiting from producing problems is respected.

One of the Future of the Corporation working papers examined legal frameworks and their implications in more detail.<sup>23</sup> It set out the advantages and disadvantages of corporate social responsibility (CSR) strategies, and reviews how some states have adopted a binding-obligations approach. It reiterates the challenge identified by other studies: defining corporate purpose, and how to incentivise corporate boards to prioritise it.

Shifting all for-profit corporations from a system of shareholder primacy to a multi-stakeholder model would require structural change to the law in most jurisdictions. The practical challenge would be how to ensure corporate boards respond to stakeholders, as well as shareholders. The idea of 'do no harm' is often lauded, and countries such as France, Switzerland, Ecuador, and South Africa have opted to develop laws on this basis. However, this approach is likely to result in compliance rather than engagement, and policing breaches is likely to be difficult and time-consuming. But the 'do no harm' concept has complex implications in relation to corporate purpose and the law. Any changes to present policy must be considered alongside a review of the distinct legal demands on directors to adhere standards of conduct and standards of review, which comprise a set of duties, in the UK presently, for example, to 'promote the success of the company' and to have regard to the interests of stakeholders.<sup>24</sup>

23 This section summarises findings from Palombo, D. (2019), 'The Future of the Corporation: The Avenues for Legal Change', *Future of the Corporation Working Paper 1*

24 Legislation.gov.uk (2019), 'Companies Act 2006: Section 172 (1)'. Available: <https://www.legislation.gov.uk/ukpga/2006/46/section/172>

### Box 9: Fourth Sector Research Agenda:

#### How would regulated sectors function if they required regulated firms to be for-benefit?

How to shape the requirements imposed on regulated sectors are an important consideration for policymakers. Could the fourth sector provide a framework for applying Principle 2 on regulation? In order to evaluate this, further research is needed to establish the impact such an approach would have as well as whether it would deliver the high duties of engagement, loyalty and care to public interests anticipated by this Principle.

Regulation provides another frame of thinking. The terms of reference of most national regulators tend to reflect the flawed belief that markets and competition are adequate policy levers to deliver good outcomes. The Future of the Corporation research suggests that a purpose-driven approach could have a positive impact on the social responsibility of companies if understood as different from CSR and complementary to the ‘do no harm’ approach. But purpose needs to be more clearly defined, and there must be a departure from shareholder primacy to include other stakeholders affected by corporate activities. In the UK, current law allows the entrenchment of purpose within company statutes if founders or subsequent shareholders so wish — but the provision is hardly ever used. Rather than more regulation, private companies that provide public services might be encouraged to adopt existing provisions. Further progress could be made without changing current laws by ensuring remedies for both stakeholders and shareholders, if the rights they already enjoy are abused.

The exception highlighted by the Principle on regulation is in regulated sectors. Among utilities, banks, auditing companies, and some public-service providers, the Future of the Corporation Principles propose that corporate purposes of companies should be consistent with their social licences to operate. If their stated public purpose is their social licence, then directors will have a fiduciary duty to uphold their licences, as well as earn returns for their investors. What is currently a conflict between the interests of regulators in public benefits for customers and communities, and the interests of directors in private returns for shareholders, then becomes cooperation in the delivery of both.

### Ownership and governance (Principles 3 & 4)

Alongside corporate law, reforms are needed to regulations regarding the stewarding of companies by institutional investors. This is to ensure that they promote the success of their corporate investments in achieving their purposes, as well as the returns they earn for their beneficiaries. An example is the new Stewardship Code that the Financial Reporting Council and Financial Conduct Authority have recently introduced in the UK.<sup>25</sup>

### Box 10: Fourth Sector Research Agenda:

#### How have different ownership models affected the ability of for-benefit firms to deliver financial results and social/environmental impact?

The Future of the Corporation findings emphasise that new and existing owners not only have rights over their enterprises but also obligations and responsibilities: to

At the heart of the debate on statutory changes that would accompany the Principles are the balance and reciprocity of obligations between ownership of assets and ownership of corporate purpose.<sup>26</sup> The former centres on rights and rewards, the latter on responsibilities and stewardship. Future business models must clarify the interests of members of a company, who may not necessarily be shareholders; the ultimate beneficial owners may not possess legal title to shares. In many countries, corporate law has not kept pace with this reality, and the complexity of different share classes and subsidiaries makes transparency of ownership and purpose more difficult to ascertain. Can established property rights be augmented with the concept of purpose rights?

<sup>25</sup> Financial Reporting Council (2019), ‘The UK Stewardship Code 2020’, <https://www.frc.org.uk/investors/uk-stewardship-code>

<sup>26</sup> This section summarises findings from Kustin, B., Chan, J. and Johnston-Louis, M. (2019), ‘The Future of Corporate Ownership and Governance’, *Future of the Corporation Working Paper 2*

sustain corporate purposes, ensure that the associated values are embedded in the organisation, and establish appropriate benchmarks to measure success in delivering on the purpose. With the fourth sector comprising a great diversity of organisations in different forms, there is scope for further research into whether the nature of ownership of for-benefits exhibits these characteristics, and by extension, whether and how this has impacted on their success and whether a for-benefit model is suited to certain types of ownership?

Even if ownership is deeply purposeful, owners can still contribute to and profit from social, financial, or environmental harms inflicted by the corporation. This risk is compounded by current incentives to attract and satisfy short-term capital, even when evidence suggests that long termism delivers both excellent financial performance as well as beneficial social and environmental impacts. Since the firm is a separate legal entity, how can it be made accountable to parties other than its owners?

Reforming corporate governance sits alongside these considerations of ownership. The Principle arising from the Future of the Corporation work describes a shift from the current focus — aligning managerial interests with those of shareholders — to aligning managerial interests with corporate purposes. The Corporate Governance Code in the UK, adopted by the Financial Reporting Council in 2018,<sup>27</sup> seeks to do exactly that. It states that companies should establish their corporate purposes, values, and strategy, and ensure that these and their culture are aligned. It requires companies to demonstrate that they have the resources required to meet their objectives and measure their performance against them.

#### **Box 11: Fourth Sector Research Agenda:**

##### **Can governance models in for-benefits provide useful guidance for businesses adopting a stakeholder approach?**

The fourth sector includes a variety of forms that provide distinct roles for stakeholders, such as co-operatives, mutual benefit companies, and stakeholder representation on boards. The experience of businesses operating a stakeholder approach will be crucial to developing new governance practices to support the delivery of corporate purpose. Further research that interrogates the complex human and social interactions that define the relationships between stakeholders within a business, informed by the experience of for-benefits, would provide valuable lessons for all businesses exploring a stakeholder approach. Particular insight is needed to understand how stakeholders outside the legal boundaries of the firm (such as the environment, or future generations) can participate or be represented in governance.

The Future of the Corporation research explored what mechanisms might be required to hold corporate boards, management, and equity owners to account within such a system of governance focused on the achievement of the defined corporate purpose. Current practice is limited in scope when it comes to extending accountability to stakeholders. In terms of accountability mechanisms in practice, most focus on employees. Danish industrial foundations provide examples of effective engagement with employees, which results in better employee relations.<sup>28</sup> The two-tier board structure that is common in Germany is another model. It splits responsibility for daily management from the strategic decision-making of the supervisory board, which comprises both shareholder interests and worker representatives.<sup>29</sup> However, both models have limitations.

27 Financial Reporting Council (2018), 'The UK Corporate Governance Code 2018', <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

28 Børsting, CW & Thomsen, S (2017), 'Foundation Ownership, Reputation, and Labour', *Oxford Review of Economic Policy*, vol. 33, no. 2, pp. 317-338

29 TUC (2016). ALL ABOARD: Making worker representation on company boards a reality. Available: [https://www.tuc.org.uk/sites/default/files/All\\_Aboard\\_2016\\_0.pdf](https://www.tuc.org.uk/sites/default/files/All_Aboard_2016_0.pdf)

The research discussed three further avenues of inquiry which are also relevant for the further development of the fourth sector:

1. The changing nature of work, partly due to technology, requires different ways of engaging with workers and evaluating stakeholder claims. The need for new governance mechanisms is already evident and further focus on this would be of value.
2. The concept of purpose still requires extensive further enquiry, particularly considering how its vagueness could be acknowledged, embraced, and leveraged to develop different skill-sets for new governance mechanisms. These should harness not just commercial and financial competencies, but the broader approaches and methodologies arising from the humanities, arts, and sciences. Alongside this, further debate is needed on how the resulting skills can be embedded in corporate structures and processes.
3. The question of ‘plausible deniability’ of for-profit firms regarding their negative impacts can be considered by investigating increasing transparency around costs within corporate structures and their supply chains, and democratising the influence and power of owners and managers. Notably, large private companies might be compelled to adhere to the same standards as public companies for the purposes of multi-stakeholder accountability.

**Below**

Wall Street and New York  
Stock Exchange in Downtown  
Manhattan, New York City, USA



## Measurement and performance (Principles 5 & 6)

The Principles on measurement and performance seek to address the need for accounting standards to be amended to reflect the growing significance of human, social, and natural— as well as financial and material — assets.

### Box 12: Fourth Sector Research Agenda:

#### What lessons can for-profits, non-profits, and for-benefits learn from each other about measuring and managing impact?

Can the new impact measurement frameworks being developed by various organisations be applied to both for-profit and for-benefit organisations, or does each sector require a different approach? What lessons can be learned from the quality of for-benefit reporting under voluntary standards and legal mandates, respectively? What can for-benefits learn from for-profits about adapting in response to performance data? How does a for-benefit firm's structure (e.g. governance, ownership, incentives, and policies) affect the nature of performance measurement and accounting processes required to deliver accountability to purpose and stakeholders?

A firm's performance should be measured against fulfilment of corporate purposes and profits, net of the costs of achieving them.<sup>30</sup> Companies should be required to make provisions for the costs of remedying failures to fulfil their purposes or of depleting their human, social, and natural assets. But while socially responsible investment has been growing steadily over the last 20 years, a lack of precise definition and widely accepted performance measurement and accounting processes has been a weak point.

Data scarcity has constrained the development of suitable metrics on environmental, social, and governance (ESG) scores, preventing true alignment between valuations, purpose, and practice. Investors can play a significant role in the evolution of purposeful business, and it is clear from the growth of the responsible-investment sector over the last decade that there is demand for this approach. What is required is a verified and auditable, non-financial equivalent to statutory accounts, and a way of recording non-financial capital-building on the corporate balance sheet as an investment, rather than a cost. This ambition sparks renewed debate about what constitutes intangible assets and investments, how they should be valued and measured, and how companies can report or address positive social or environmental externalities and dependencies.

While purpose-driven corporations might aspire to labels such as sustainable, green, or ESG, there is still no standardised definition or methodology for these. Established standards bodies such as the Principles for Responsible Investment<sup>31</sup> and World Benchmarking Alliance<sup>32</sup> are now requiring evidence of continuous improvement from members to improve credibility. Platforms like the B Corp movement<sup>33</sup> and Impact Management Project<sup>34</sup> also provide an opportunity for building broader consensus on how to measure, report, compare, and improve the impact performance of for-benefit enterprises and investments. The Future of the Corporation research notes the accounting challenges of classifying, treating, and reporting non-financial and intangible assets, the inherent measurement uncertainty in their fair valuation, and the difficulty in ascertaining their future cash flows. Current reporting and management accounting practices offer five frameworks: sustainability reporting, impact valuation, the Natural Capital Protocol, integrated profit and loss, and mutual profit and loss.

30 This section summarises findings from Stroeble, J. C., Soonawalla, K., Metzner, M. (2019), 'How to Measure Performance in a Purposeful Company? Analysing the Status Quo', *Future of the Corporation Working Paper 3*

31 PRI (2020), 'Principles for Responsible Investment', <https://www.unpri.org/>

32 World Benchmarking Alliance (2020), 'Benchmarking for a Better World', <https://www.worldbenchmarkingalliance.org/>

33 Certified B Corporation (2020), 'About B Corps', <https://bcorporation.net/about-b-corps>

34 Impact Management Project (2020), 'About', <https://impactmanagementproject.com/about/>

**Box 13: Fourth Sector Research Agenda:**

**What would be the impact of better metrics on the fourth sector?**

In the context of the Future of the Corporation Principle 6 on performance, which suggests a shift in the way profit is measured, how would performance of for-benefits then differ from for-profits? Would this lead to a major scaling up of the fourth sector due to the way for-benefits already reduce negative impacts and focus on social benefits (and so have a competitive advantage in a purpose-driven environment)?

These challenges have consistently been identified in Future of the Corporation and other industry research. Data and metrics must drive operational strategies to meet financial goals and deliver social purpose. The lack of verified, standardised metrics presents an obstacle for those bound by conventional investment mandates from considering a shift towards for-benefit strategies. Inconsistencies amongst ratings agencies remain, as well as disconnects between process or disclosure quality and impact performance. A focus on impact, not just activities or disclosure, is critical for purpose-driven structures.

**Finance and investment (Principles 7 & 8)**

The finance industry — including banks, insurers, credit-ratings agencies, analysts, and fund managers — plays a pivotal role in our economy.<sup>35</sup> In particular, it has a profound influence on the behaviour of our corporations and the individuals who serve them. To provide its services, the finance industry has considerable powers in corporate governance. If we are to reconceptualise the purpose of the corporation, we also need to reconceptualise the role of the finance industry.

**Box 14: Fourth Sector Research Agenda:**

**What types of capital and financial services do for-benefit businesses need to thrive?**

In order to achieve scale, for-benefit businesses must currently compete with for-profits for finance. With the finance industry focused on financial goals, this raises the question of whether, even if the fourth sector is set to flourish, the nature of the finance available undermines its ability to scale. This also raises questions about whether a distinct, for-benefit financial sector that prioritises purpose over profit is required, whether it is viable, and what it would look like in terms of structure, standards, and norms.

Several features of this industry arise from present policies in some jurisdictions. Firstly, the tax system, which can encourage an excessive reliance on debt in preference to equity finance by allowing companies to deduct their payments of interest on their debt against their corporate liabilities, but not the cost of their equity. That distortion would need to be corrected to promote the use of risk-bearing capital. And secondly, investor protection rules — on disclosure, concert parties, insider trading, dual-class shares, and takeovers that discourage accumulation of controlling blocks. These would need to be reformulated to ensure that they do not prevent companies from structuring their ownership in the form that is best suited to their corporate purposes.

But could there be a broader shift to define the purpose of finance as a mechanism to enable the corporate purpose set out by the Future of the Corporation programme? Historically, like the early corporations, many of the early institutions of finance were clear about the purpose of their activity and what they were providing to their customers. Yet evidence suggests that today's institutions and those who work in them are unclear about their purpose. There is general agreement in the literature that the purpose of finance is to serve the outside world, but there is a lack of work drawing together the corporation and finance systems — and analysing the dependency and interconnectedness of the two.

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35 This section summarises findings from Mann, H. & Pitt-Watson, D. (2019), 'The Purposeful Corporation, and the Role of the Finance Industry', *Future of the Corporation Working Paper 4*

Given that the financial system must cater to the needs of the users of funds (households, companies, and governments), a financial system focused on purpose might itself help promote the emergence of purposeful companies. Finance will, of course, continue searching for returns in order to meet pensions and other liabilities, but if it is serving savers (the providers of funds), it will not pursue returns at the expense of the society in which its savers live.

**Box 15: Fourth Sector Research Agenda:**

**Is the for-benefit model an answer to the question of how to promote joint investment in social purposes?**

The importance of partnership to successful investment in achieving social purposes means that a business model that is able to accommodate hybrid objectives — such as the for-benefit model — should perform better as a means to deliver those purposes. This assumption needs to be tested by further research to establish how well for-benefits fulfil their hybrid objectives, how a system of joint public and private investment would operate through a for-benefit model in practice, and whether it addresses the issues that hampered previous models for such investment.

A purposeful finance industry would invest for the long term; it would use the power of diversification to allow companies to take (idiosyncratic) risk. It would encourage the raising of new funds, both for permanent capital through equity, and through bonds and other loans. In relation to stewardship, equity funds would still encourage companies to seek returns, but would be clear that stakeholders need to be treated fairly, and that companies should not profit through the externalisation of costs. They would actively use their shareholder powers to promote social and environmental outcomes, as well as financial ones. This is already taking place to some degree in initiatives such as the Principles for Responsible Investment<sup>36</sup> and Climate Action 100+.<sup>37</sup>

A purposeful financial sector would also be better suited to the forms of partnerships that purposeful business needs to enable investment in solving the problems of people and planet. These types of partnership can be undermined by breaches of trust between the parties, as particularly illustrated by the failings of private finance initiatives, public-private partnerships, and privatisation programmes. As discussed above in relation to regulation, this can be addressed through the use of corporate forms — such as public-benefit corporations — that are more able to promote hybrid objectives combining private and public interests.

36 PRI (2020), 'What are the Principles for Responsible Investment?', <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment>

37 Climate Action 100+ (2020), 'About Us', <http://www.climateaction100.org/>

## Pathways for reform

The Future of the Corporation research has highlighted the need for a shift in the default framework for organising business, away from a narrow focus on increasing returns for shareholders, and towards a focus on corporate purpose. The application of these findings has been subject to extensive debate in the roundtables conducted as part of the Future of the Corporation programme.<sup>38</sup> Discussions have tended to consider five pathways for reform: **legal, leadership, feedback loops, partnerships, and skills and knowledge**. These pathways were set out in the 2019 'Principles for Purposeful Business' report<sup>39</sup> and are addressed in more detail below.

### Box 16: Fourth Sector Research

#### Agenda:

**How can a fourth sector with a distinct legal architecture deliver a level playing field between firms operating as for-benefits and those operating as for-profits in the same industry?**

What are the pros and cons of a voluntary approach to adopting a purpose-first business structure versus a mandated one? Could the fourth sector achieve enough scale, or influence the behaviour of mainstream for-profit firms sufficiently, to address pressing economic, social, environmental, and political challenges?

### Box 17: Fourth Sector Research

#### Agenda:

**What lessons can be learned from the experience of leaders of for-benefits that can inform a general shift towards purposeful business?**

A starting point for research would be the extent to which existing for-benefits exhibit the Principles for Purposeful Business set out by the Future of the Corporation programme. Further examination of those leading firms could yield valuable insights into leadership qualities and practices required to navigate the challenges and benefits facing firms as a general shift towards purposeful business takes place in the economy.

### Legal

Because the corporation is a legal concept, a change to the nature of the corporate system must be reflected in the law.<sup>40</sup> Purposeful business needs new forms of legal authority to be able to transform individual interests into collective achievements of common purpose. Government-led legal reform, while not the only pathway, will therefore be critical in bringing about change.<sup>41</sup>

The core corporate law is only part of the operating environment. Competition and tax law, regulation, and codes of conduct also need to provide a consistent framework for purposeful business. The Future of the Corporation Principles for Purposeful Business suggest just such a consistent policy framework, highlighting enabling changes to corporate law, regulation, ownership, and governance.

### Leadership

The critical role of leadership is a recurrent theme in discussions around the shift to purposeful business, addressing the Principles around ownership, governance, performance, finance, and investment in particular. Leadership is an immediate, powerful lever for change, enabling businesses and investors to act without the need for new legislation. Emerging research acknowledges that some business leaders and their investors are already willing to prioritise impact, and in some cases to accept lower financial returns in order to achieve positive social impacts. This is evidenced by the rapid growth by assets under management (particularly among younger investors) of impact investing and other forms, which may contribute to targets set by the UN Sustainable Development Goals.<sup>42</sup>

38 See appendix for details of the Future of the Corporation programme's roundtables.

39 British Academy (2019), 'Principles for Purposeful Business', pp. 30-35

40 Palombo, D. (2019), 'The Future of the Corporation: The Avenues for Legal Change', *Future of the Corporation Working Paper 1*

41 The role of the law here has been a subject of significant debate, reflected in the roundtable discussions held by the Future of the Corporation in 2019, see appendices. Despite the challenges, roundtables broadly concurred with the need for the use of legal mechanisms.

42 Global Impact Investing Network (2019), '2019 Annual Impact Investor Survey', [https://thegiin.org/assets/GIIN\\_2019%20Annual%20Impact%20Investor%20Survey\\_webfile.pdf](https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf)



**Box 18: Fourth Sector Research Agenda:**

**How have feedback loops operated over time within for-benefits to reinforce cultures and decisions that support purpose?**

Given the long history of some firms that can be considered for-benefits, such as certain co-operatives, further research into how feedback loops have operated within those firms could shed important light on what works and how. Questions could consider what information has been used to evaluate performance and benefit, how such information has influenced the decisions and behaviour of stakeholders, and how effective such mechanisms have been in promoting a culture that enables the delivery of the for-benefit purpose. Further comparisons in this research could be made with firms that have some for-benefit characteristics but have been obliged to narrowly focus on financial goals. This would help to establish the impact of that narrow focus on the ability of the firm to deliver on its broader purpose.

**Box 19: Fourth Sector Research Agenda:**

**Have for-benefits performed better than for-profits working in partnerships and collaborations?**

The box on investment highlighted the need for further examination of the potential for for-benefits to provide lessons in effective collaboration to meet hybrid objectives of profit and purpose. Beyond investment, can for-benefits also provide insights into how partnerships with other stakeholder groups function in practice and how a collaborative approach can deliver purpose?

**Feedback loops**

A dialogue of continuous feedback from the multiple stakeholders involved in a firm is critical to the evolution of purposeful business. Feedback loops are particularly relevant to embedding the Principles around governance, measurement, performance, and finance. They reinforce accountability and transparency where the traditional restraints of competition and regulation have failed.<sup>43</sup>

Structured feedback channels provide ways in which stakeholders can judge whether businesses have met or meaningfully progressed towards their purposes, while also allowing firms to identify and respond to the possible impacts and harms resulting from corporate activity. Commitment to feedback loops based on measurement of stakeholder impacts might be used to promote competition to solve social problems in the delivery of corporate purposes.

By acknowledging and using these feedback loops to instigate changes in behaviour, a systematic approach can be developed to embedding purpose, changing cultures, and becoming trustworthy. Systems will not be developed centrally, to be rolled out ‘top down’, but will evolve from a myriad of small adjustments. In this way, the strengths of business — its adaptability and its ability to deliver and to become more than the sum of its parts — will be used to generate the new ways of operating on which purposeful business will rely.

**Partnerships**

The holistic, integrated ethos of purposeful business implies forging new sets of relationships which align the interests of stakeholders including shareholders. The Principles for Purposeful Business report highlighted that a partnership approach can support the shift to purposeful business with particular reference to the regulation, governance, finance, and investment. The sheer scale and reach required to engage and lock in a wide range of stakeholders necessitates the formation of new relationships and connections. For example, partnerships between the public and private sectors, large and small enterprises, and for-profit and for-benefit interests will be crucial to the delivery of corporate purpose in the future. Networks of collaboration between organisations of all types are facilitated by new technologies and can play a vital role in increasing the availability of information and the ability to listen, learn, co-ordinate, and scale.

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43 Kustin, B., Chan, J. & Johnston-Louis, M. (2019), ‘The Future of Corporate Ownership and Governance’, *Future of the Corporation Working Paper 2*

**Box 20: Fourth Sector Research Agenda:**

**What lessons can be learned from the approaches used by for-benefits to inform the development of new skills for purposeful business?**

A wider shift to purposeful business will need to learn from the experience of those businesses that have already found new ways to operate around purpose. These approaches need to be evaluated and considered in the context of a wider shift to purposeful business. What skills remain absent in the fourth sector and which other sectors can provide lessons for the development of these skills? How can business management theory and education be informed by the study of the successes and setbacks of for-benefit businesses at various stages of maturity?

**Skills and knowledge**

Building a multi-stakeholder ecosystem to support purposeful business will necessitate adaptation and change from all involved. Professionals engaged in changes to legal and regulatory architecture, and leaders, managers, and stakeholders — including shareholders — involved in governance and measurement, will need to acquire new skills and knowledge to manage new ways of engaging.

Such a fundamental shift presents considerable opportunities for research and training across all sectors and demographic profiles, including how business management itself is taught. The Future of the Corporation roundtables and discussions over the last two years have emphasised the importance of this pathway.<sup>44</sup>

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44 The concept of corporate culture is also closely related to this pathway; see Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', *Journal of the British Academy*, 6(s1)

# Part 3: Considerations arising from the Future of the Corporation programme for for-benefit business

The Future of the Corporation programme has presented its evidence and associated conclusions in its two reports, which outlined a set of Principles designed to guide policymakers and business leaders towards purposeful business. However, there is value in exploring the potential of the intersections between the purposeful business and for-benefit business, particularly given their similarities.

This last part takes the Future of the Corporation findings presented above as a starting point and seeks to describe how the Principles for Purposeful Business could provide a foundation for businesses exploring the option of becoming a for-benefit, taking a broad view of the findings from a business perspective.

## Implications of the Future of the Corporation findings for existing for-benefits

The growth of businesses in the fourth sector of the economy in many ways reflects a resurgence of historical conceptions about the social purpose, and indeed social license, of corporations.<sup>45</sup> Further inquiry into this evolution and convergence of movements, beginning in the late 20th century, would help to understand how non-profits have sought financial self-sufficiency, how some public organisations have adopted market-based approaches, and how certain for-profits have taken measures to integrate social and environmental impact into their business models and decision-making. Research could also help to better understand the forces that have brought about this evolution.

At their best, for-benefit businesses profit by delivering on their purpose, balancing the needs of all their stakeholders along the way and focusing on long-term outcomes to guide their actions. As described in the highlighted research agenda through Parts 2

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<sup>45</sup> See Box 1: The Social Economy in the EU, which highlights the size of part of the fourth sector in the EU.

and 3 of this report, there are many lessons that could be learned through case studies and further research into the experiences of for-benefits; in particular, how, within purpose-driven businesses, societal and environmental impact is integrated with business strategy.

The demands of innovators like impact investors are driving the formation of an ecosystem of professional products and services tailored to purposeful and for-benefit business. These and other tools like integrated assessment and reporting standards, specialised technical assistance and training offerings, and social enterprise incubators and accelerators will be valuable in a purpose-centred economy. Further research is required, however, to understand how policies could be better designed and targeted to support for-benefits.

## Implications of the Future of the Corporation findings for new for-benefit businesses

Many of the problems that we currently confront relate to relatively large, established businesses — hence the programme’s focus on the corporation. However, the Future of the Corporation findings are also highly relevant to the creation of new and small enterprises. For new businesses considering a for-benefit model, the Principles of Purposeful Business would be a valuable starting point.

When businesses are established, the founders in general have a clear notion of their **purposes**. Identification of a purpose is critical to the success and survival of new enterprises. However, what distinguishes the Future of the Corporation programme are two features of successful businesses: first, that they are created to solve problems; and second, that they should account for their financial performance in an appropriate measure of profits.

Clarity about what is and is not a corporate purpose is important because many firms argue that they have a purpose when, in fact, they do not satisfy the criteria set out in the Principles for Purposeful Business. *Thinking in terms of solving problems and how to avoid profiting from creating problems is a powerful way of reorienting commercial activities.* It is inspirational both for those working in an organisation and for those outside contributing to the success of the company. It is also vital for those affected by the firm as customers, communities, and the environment, in ensuring its trustworthiness to uphold their interests and not profit at their expense.

Once the notion of purpose is clarified, the next question is whose responsibility it is to determine and implement it. In the case of newly established firms, the answer in general is the founders. They provide the initial idea and motivation for the firm and therefore the purpose behind its creation. However, that responsibility quickly passes to the board of the company. The founders, in conjunction with other members of the board, then provide the initial basis for formulation and implementation of purpose.

Where matters become more complex is when the **ownership** of companies changes or becomes dispersed across several investors. In some cases, ownership is transferred or shared with other family members. In others, it is sold to other investors, or enterprises come to the stock market and ownership is dispersed. The Future of the Corporation findings emphasise that, when this happens, the new and existing owners not only have rights over their enterprises but also obligations and responsibilities:

to sustain corporate purposes, ensure that the associated values are embedded in the organisation, and establish appropriate benchmarks and feedback mechanisms to monitor success in delivering on the purpose. This does not necessarily involve participation in the management of the firm; in many cases, a separation between ownership and management is desirable for successful implementation.

Related to this are the **governance** systems that are put in place. Corporate governance is conventionally viewed as about aligning the interests of management with shareholders. However, in the context of purposeful and for-benefit businesses, governance is best understood as about aligning managerial interests with the delivery of corporate purposes. This involves ensuring that the purposes, values, and strategies of firms are aligned with their cultures, and that the resources and investments required to deliver purposes are available.

It also means that **measurement** of the activities and performance of firms should be against their purposes. At present, accounting is predominantly concerned with financial and physical assets and liabilities. However, other parties that companies do not own are increasingly important to the success of firms. Those other parties include their people (employees and workers in their supply chains), their communities and societies, and their environment and natural world. In other words, companies need to account for people, society, and the environment, as well as their own physical and financial assets.

Equally, in relation to **performance**, it is important to align both measurement and incentives with corporate purposes. Performance is currently measured by profits, net of the costs of maintaining physical assets. However, as noted in the Principles for Purposeful Business, it should also account for the costs of maintaining human, social, and natural assets on which companies are increasingly dependent. Furthermore, companies should make provisions for the costs of rectifying failures to fulfil their purposes, so that they have the reserves required to remedy these defects in the future.

## Implications of the Future of the Corporation findings for for-profits considering becoming for-benefits

For existing corporations considering transition to a for-benefit model, a distinction could be drawn between those that have **large-block shareholders** (identifiable owners of significant blocks of shares) and those that do not.<sup>46</sup>

The owners of large blocks of shares are in a position where they can promote the determination and implementation of corporate purposes. While they may do exactly that, even where purposes are identified, they may not necessarily take the form described above: that is, solving problems and avoiding profiting from producing problems. The power and influence that block holders exercise can be put to good use — or used to exploit other parties' interests. It is therefore particularly important

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46 Edmans, A. (2014), 'Blockholders and Corporate Governance', *European Corporate Governance Institute (ECGI) - Finance Working Paper No. 385/2013*, <https://ssrn.com/abstract=2285781>; see also Mayer, C. (2018), *Prosperity: Better Business Makes the Greater Good*, Oxford University Press, p. 90

in the case of block holders that they are aware of their responsibilities for promoting social benefits and avoiding profiting from negative outcomes. Corporate law has an especially significant role to play in ensuring this is the case, although leadership from business will also be necessary, as described by the Principles for Purposeful Business report.

The second type of company is one with **dispersed ownership** amongst many individual and institutional investors. In this case, the problem is not one of excessive influence by owners, but the absence of identifiable owners to define and oversee the adoption of corporate purposes. It then falls to the board to determine and implement purposes and ensure that they are adopted throughout their organisations.

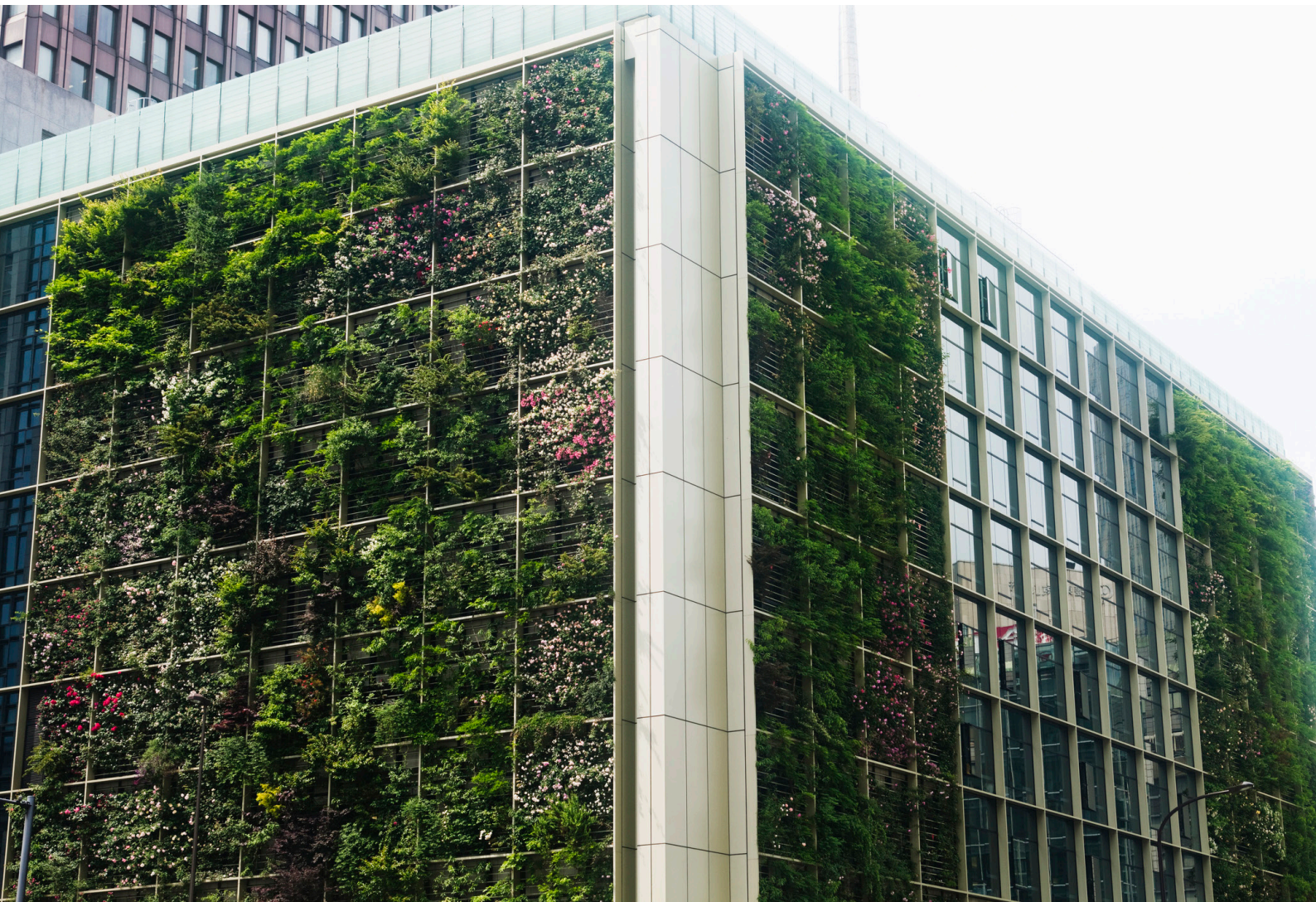
But directors cannot do this without the support of their shareholders. Unless shareholders seek impact as well as financial returns from their investments, then the purposes boards can implement are restricted to those that are value-enhancing. In some cases, the promotion of stakeholder interests is consistent with shareholder value-creation, at least in the long term, but in others there is a trade-off between the two.<sup>47</sup> In the latter situation, unless boards are insulated from shareholders (for example, by takeover defences or restrictions on shareholder rights to remove them), the for-benefit policies they can pursue will again be limited to those that are considered value-enhancing by shareholders.

Adoption of such policies requires investors to be willing to provide companies with risk-bearing capital over sufficiently long periods of time for the financial benefits of their purposes to be realised. This may involve significant upfront investments to be made outside the legal boundaries of firms, for example, by governments, in conjunction with partnerships between organisations in private, public, non-profit, and NGO sectors. These collaborative programmes require the building of strong relations of trust between participants and an ability to demonstrate the benefits of doing so to external investors.

In contrast to early-stage firms, large existing organisations are therefore prone to inertia, either from unwilling dominant owners or dispersed shareholders who do not perceive or are reluctant to invest in the long-term returns that may accrue from for-benefit activities. However enlightened a board of directors may be, unless they are supported in their vision for the future by their shareholders, they are limited in what they can achieve. To go beyond this, then, they need to be assisted by changes to the policy framework and the ecosystem within which they are operating.

# Part 4: Conclusions on the future research agenda ahead for purposeful business and the fourth sector

Together, the Future of the Corporation's proposed policy reforms – regarding corporate law, regulation, ownership, governance, measurement, performance, finance and investment – supplement the initiatives that both new and existing companies can take to adopt and implement purposes for benefit. As detailed in the 'Principles for Purposeful Business' report,<sup>48</sup> and summarised in Part 3 here, a combination of pathways – including legal reform, leadership, feedback loops, partnerships and skills and knowledge – is required to promote change.



The Future of the Corporation reports clearly argue that changes in the law will ultimately be required to support a general shift towards purposeful companies across the whole economy – and particularly many existing large companies. But while momentum is building for this economy-wide shift, enlightened leadership amongst businesses, investors and public institutions are already finding ways to make a shift. The fourth sector of the economy, as defined in the Introduction to this report, illustrates the growing number of businesses making changes to governance, ownership, measurement and performance arrangements in order to become more purposeful. These for-benefit businesses will be assisted by working in partnership, receiving feedback from affected parties, and being trained in the necessary management and governance techniques.

The research agenda that has been highlighted throughout the report shows the need for further enquiry to continue developing for-benefit businesses and the fourth sector's supportive ecosystem, and to assess their prospects. Research will also provide better evidence as to the opportunities for addressing major social and environmental issues. The Fourth Sector 2030 Initiative makes the very direct link to the UN Sustainable Development Goals, which raises some important considerations in that regard. For example, is it the case that for-benefits are more flexible and better at dealing with disruption, whether technological or environmental?

The Fourth Sector 2030 Initiative makes the case that the development and growth of for-benefits can be substantially boosted by recognising their emergence as a new sector – a sector which is innovating and testing a diverse range of purposeful business models that may in future form the basis or inspiration for purposeful companies economy-wide.

The application of the Principles for Purposeful Business to for-benefit business provides an illustration of how the Future of the Corporation framework can assist business with delivering benefit for people and planet. We hope that in presenting this thinking it not only provides the basis for a future research agenda for the fourth sector, but also a live example of how the Principles for Purposeful Business can be applied in practice.



# Appendix A: Fourth Sector Research Agenda

The application of the Principles for Purposeful Business to the fourth sector of the economy sheds light on considerations in starting, managing, transitioning to, and enabling for-benefit business. It also helps surface important gaps in knowledge that point to an agenda for further research. The research questions formulated in this report are reproduced below for ease of reference:

## Part 1: Future of the Corporation landscape review

- **History:** What lessons from an historical analysis of the emergence and institutionalisation of the private and non-profit sectors could guide thinking on the evolution of the fourth sector of the economy?
- **Technological Change:** What options do the fourth sector and for-benefit business models provide for resolving the tensions that arise from technological disruption, such as the impact of automation on the future of work, the erosion of privacy, and the ethics of genetic engineering? How do for-benefit technology companies integrate social and environmental objectives into their approaches to innovation, product development, and revenue generation?
- **Corporate Purpose:** What wider lessons about the integration of corporate and social purpose can be derived from the experience of organisations operating in the fourth sector? Who decides what constitutes a legitimate social purpose for a for-benefit firm to pursue, and how? What are the barriers to embedding a commitment to purpose? What range of internal and external mechanisms keep for-benefit companies accountable to their purpose? Does the efficacy of these vary by jurisdiction, industry, scale, or context?
- **Trustworthiness:** How can we compare trustworthiness of organisations in different sectors? Can we draw conclusions about the trustworthiness of for-benefits in comparison to for-profits or non-profits, and whether this varies by type of stakeholder (shareholder, employee, regulator, member of the public, etc.), sector or geography? How should for-benefit enterprises balance different perceptions of trust or legitimacy between different stakeholder groups? Are there any generalised lessons that can be learned from for-benefits in terms of their approach to being trustworthy?
- **Culture:** What lessons can be derived from established for-benefits about the relationship between purpose and organisational culture? How is culture linked to the metrics and incentives that shape employee behaviour? How is it linked to structural features, such as ownership and governance? How is corporate culture preserved or transformed in established for-benefit firms through mergers, acquisitions, public tenders, and other significant transitions?

## Part 2: Principles and pathways

### Principles for Purposeful Business

- **Corporate law:** What are the implications of the legal form on the success of, or challenges faced by, for-benefits, considering jurisdiction and other factors such as culture, governance and performance?
- **Regulation:** How would regulated sectors function if they required regulated firms to be for-benefit? How to shape the requirements imposed on regulated sectors are an important consideration for policymakers. Could the fourth sector provide a framework for applying Principle 2 on regulation? In order to evaluate this, further research is needed to establish the impact such an approach would have as well as whether it would deliver the high duties of engagement, loyalty and care to public interests anticipated by this Principle.
- **Ownership:** How have different ownership models affected the ability of for-benefit firms to deliver financial results and social/environmental impact? The Future of the Corporation findings emphasise that new and existing owners not only have rights over their enterprises but also obligations and responsibilities: to sustain corporate purposes, ensure that the associated values are embedded in the organisation, and establish appropriate benchmarks to measure success in delivering on the purpose. With the fourth sector comprising a great diversity of organisations in different forms, there is scope for further research into whether the nature of ownership of for-benefits exhibits these characteristics, and by extension, whether and how this has impacted on their success and whether a for-benefit model is suited to certain types of ownership?
- **Governance:** Can governance models in for-benefits provide useful guidance for businesses adopting a stakeholder approach? The fourth sector includes a variety of forms that provide distinct roles for stakeholders, such as co-operatives, mutual benefit companies, and stakeholder representation on boards. The experience of businesses operating a stakeholder approach will be crucial to developing new governance practices to support the delivery of corporate purpose. Further research that interrogates the complex human and social interactions that define the relationships between stakeholders within a business, informed by the experience of for-benefits, would provide valuable lessons for all businesses exploring a stakeholder approach. Particular insight is needed to understand how stakeholders outside the legal boundaries of the firm (such as the environment, or future generations) can participate or be represented in governance.
- The changing nature of work, partly due to technology, requires different ways of engaging with workers and evaluating stakeholder claims. The need for new governance mechanisms is already evident and further focus on this would be of value.
- The concept of purpose still requires extensive further enquiry, particularly considering how its vagueness could be acknowledged, embraced, and leveraged to develop different skill-sets for new governance mechanisms. These should harness not just commercial and financial competencies, but the broader approaches and methodologies arising from the humanities, arts, and sciences. Alongside this, further debate is needed on how the resulting skills can be embedded in corporate structures and processes.

- The question of ‘plausible deniability’ of for-profit firms regarding their negative impacts can be considered by investigating increasing transparency around costs within corporate structures and their supply chains, and democratising the influence and power of owners and managers.
- **Measurement:** What lessons can for-profits, non-profits, and for-benefits learn from each other about measuring and managing impact? Can the new impact measurement frameworks being developed by various organisations be applied to both for-profit and for-benefit organisations, or does each sector require a different approach? What lessons can be learned from the quality of for-benefit reporting under voluntary standards and legal mandates, respectively? What can for-benefits learn from for-profits about adapting in response to performance data? How does a for-benefit firm’s structure (e.g. governance, ownership, incentives, and policies) affect the nature of performance measurement and accounting processes required to deliver accountability to purpose and stakeholders?
- **Performance:** What would be the impact of better metrics on the fourth sector? In the context of the Future of the Corporation Principle 6 on performance, which suggests a shift in the way profit is measured, how would performance of for-benefits then differ from for-profits? Would this lead to a major scaling up of the fourth sector due to the way for-benefits already reduce negative impacts and focus on social benefits (and so have a competitive advantage in a purpose-driven environment)?
- **Finance:** What types of capital and financial services do for-benefit businesses need to thrive? In order to achieve scale, for-benefit businesses must currently compete with for-profits for finance. With the finance industry focused on financial goals, this raises the question of whether, even if the fourth sector is set to flourish, the nature of the finance available undermines its ability to scale. This also raises questions about whether a distinct, for-benefit financial sector that prioritises purpose over profit is required, whether it is viable, and what it would look like in terms of structure, standards, and norms.
- **Investment:** Is the for-benefit model an answer to the question of how to promote joint investment in social purposes? The importance of partnership to successful investment in achieving social purposes means that a business model that is able to accommodate hybrid objectives — such as the for-benefit model — should perform better as a means to deliver those purposes. This assumption needs to be tested by further research to establish how well for-benefits fulfil their hybrid objectives, how a system of joint public and private investment would operate through a for-benefit model in practice, and whether it addresses the issues that hampered previous models for such investment.

### Pathways for reform

- **Legal:** How can a fourth sector with a distinct legal architecture deliver a level playing field between firms operating as for-benefits and those operating as for-profits in the same industry? What are the pros and cons of a voluntary approach to adopting a purpose-first business structure vs. a mandated one? Could the fourth sector achieve enough scale, or influence the behaviour of mainstream for-profit firms sufficiently, to address pressing economic, social, environmental, and political challenges?
- **Leadership:** What lessons can be learned from the experience of leaders of for-benefits that can inform a general shift towards purposeful business? A starting point for research would be the extent to which existing for-benefits exhibit the Principles for Purposeful Business set out by the Future of the Corporation programme. Further examination of those leading firms could yield valuable insights into leadership qualities and practices required to navigate the challenges and benefits facing firms as a general shift towards purposeful business takes place in the economy.
- **Feedback Loops:** How have feedback loops operated over time within for-benefits to reinforce cultures and decisions that support purpose? Given the long history of some firms that can be considered for-benefits, such as certain co-operatives, further research into how feedback loops have operated within those firms could shed important light on what works and how. Questions could consider what information has been used to evaluate performance and benefit, how such information has influenced the decisions and behaviour of stakeholders, and how effective such mechanisms have been in promoting a culture that enables the delivery of the for-benefit purpose. Further comparisons in this research could be made with firms that have some for-benefit characteristics but have been obliged to narrowly focus on financial goals. This would help to establish the impact of that narrow focus on the ability of the firm to deliver on its broader purpose.
- **Partnerships:** Have for-benefits performed better than for-profits working in partnerships and collaborations? The section on investment highlighted the need for further examination of the potential for for-benefits to provide lessons in effective collaboration to meet hybrid objectives of profit and purpose. Beyond investment, can for-benefits also provide insights into how partnerships with other stakeholder groups function in practice and how a collaborative approach can deliver purpose?
- **Skills and knowledge:** What lessons can be learned from the approaches used by for-benefits to inform the development of new skills for purposeful business? A wider shift to purposeful business will need to learn from the experience of those businesses that have already found new ways to operate around purpose. These approaches need to be evaluated and considered in the context of a wider shift to purposeful business. What skills remain absent in the fourth sector and which other sectors can provide lessons for the development of these skills? How can business management theory and education be informed by the study of the successes and setbacks of for-benefit businesses at various stages of maturity?

## Part 3: Considerations arising from the Future of the Corporation programme for for-benefit business

### Implications for existing for-benefits:

- The growth of businesses in the fourth sector of the economy in many ways reflects a resurgence of historical conceptions about the social purpose, and indeed social license, of corporations. Further inquiry into this evolution and convergence of movements, beginning in the late 20th century, would help to understand how non-profits have sought financial self-sufficiency, how some public organisations have adopted market-based approaches, and how certain for-profits have taken measures to integrate social and environmental impact into their business models and decision-making. Research could also help to better understand the forces that have brought about this evolution.
- The demands of innovators like impact investors are driving the formation of an ecosystem of professional products and services tailored to purposeful and for-benefit business. These and other tools like integrated assessment and reporting standards, specialised technical assistance and training offerings, and social enterprise incubators and accelerators will be valuable in a purpose-centred economy. Further research is required, however, to understand how policies could be better designed and targeted to support for-benefits.

### Implications for for-profits considering becoming for-benefits:

- It is therefore particularly important in the case of block holders that they are aware of their responsibilities for promoting social benefits and avoiding profiting from negative outcomes. Corporate law has an especially significant role to play in ensuring this is the case, although leadership from business will also be necessary
- In the latter situation, unless boards are insulated from shareholders (for example, by takeover defences or restrictions on shareholder rights to remove them), the for-benefit policies they can pursue will again be limited to those that are considered value-enhancing by shareholders.

# Appendix B: Future of the Corporation Research

## Future of the Corporation 2018 Research Papers

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Paper 1	Davoudi, L., McKenna, C. & Olegario, R. (2018), 'The Historical Role of the Corporation in Society', <i>Journal of the British Academy</i> , 6(s1)
Paper 2	Hsieh, N., Meyer, M., Rodin, D. & van't Klooster, J. (2018), 'The Social Purpose of Corporations: A Literature Review and Research Agenda', <i>Journal of the British Academy</i> , 6(s1)
Paper 3	Kirby, N., Kirton, A. & Crean, A. (2018), 'Do Corporations have a Duty to be Trustworthy?' <i>Journal of the British Academy</i> , 6(s1)
Paper 4	Crean, A., Gold, N., Vines, D. & Williamson, A. (2018), 'Restoring Trust in Financial Services: Governance, Norms and Behaviour', <i>Journal of the British Academy</i> , 6(s1)
Paper 5	Hsieh, N., Lange, B., Rodin, D. & Wolf-Bauwens M. L. A. (2018), 'Getting Clear on Corporate Culture', <i>Journal of the British Academy</i> , 6(s1)
Paper 6	Gordon, J. (2018), 'Is Corporate Governance a First Order Cause of the Current Malaise?', <i>Journal of the British Academy</i> , 6(s1)
Paper 7	Hamdani, A., Kandel, E., Hashai, N. & Yafeh, Y. (2018), 'Technological Progress and the Future of the Corporation', <i>Journal of the British Academy</i> , 6(s1)
Paper 8	Birkinshaw, J. (2018), 'How is Technological Change Affecting the Nature of the Corporation?', <i>Journal of the British Academy</i> , 6(s1)
Paper 9	Desai, M. & Dharmapala, D. (2018), 'Revisiting the Uneasy Case for Corporate Taxation in an Uneasy World', <i>Journal of the British Academy</i> , 6(s1)
Paper 10	Armour, J., Enriques, L., Ezrachi, A. & Vella, J. (2018), 'Regulation and Law: The Role of Corporate, Competition and Tax Law', <i>Journal of the British Academy</i> , 6(s1)
Paper 11	Offer, A. (2018) 'Patient and Impatient Capital: Time Horizons as Market Boundaries', <i>Working paper</i>
Paper 12	Villalonga, B. (2018), 'The Impact of Ownership on Building Sustainable and Responsible Business', <i>Journal of the British Academy</i> , 6(s1)
Paper 13	Buckley, P. J. (2018), 'Can Corporations Contribute Directly to Society or only through Regulated Behaviour?', <i>Journal of the British Academy</i> , 6(s1)

### **Future of the Corporation 2019 Working Papers**

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Palombo, D. (2019), 'The Future of the Corporation: The Avenues for Legal Change'

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Kustin, B., Chan, J. and Johnston-Louis, M. (2019), 'The Future of Corporate Ownership and Governance'

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Stroehle, J. C., Soonawalla, K., Metzner, M. (2019), "How to Measure Performance in a Purposeful Company? Analysing the Status Quo"

---

Mann, H., Pitt-Watson, D. (2019), 'The Purpose of Finance'

### **Future of the Corporation 2019 Roundtables**

Roundtables brought together around 200 people in small groups to debate the proposals and give input in terms of evidence, examples and experience. 15 roundtables were held between June and October 2019

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Law and Regulation (2)	Ownership and Governance (2)	Measurement and Performance (2)	Finance and Investment (4)
Purpose and Human Rights	Follow-up sessions (2)	Edinburgh	New York

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Lilian Barratt	Senior Policy Adviser
Tara Vernhes	Policy Events Officer

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