

# NOW IS THE TIME FOR PURPOSE

## Putting Purpose at the Heart of Scottish Business

Report by the Business Purpose  
Commission for Scotland





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# FOREWORD

**T**his is a landmark report. Scotland has paved the way in establishing a commission on purposeful business. It is a topic that has risen to the fore over the last few years, but recent economic, environmental, financial, societal, and public health crises have lent urgency to taking it forward. What the report demonstrates is the immense potential for purposeful business to enhance not only the performance of business but also the wellbeing of Scotland as a whole.

Business is the source of prosperity and the growth of nations. But it has also been a cause of growing environmental pollution, inequality, and social exclusion. By acting as the guiding star of a company, purpose can both enhance business' contribution to prosperity and diminish its detrimental effects. Purposeful businesses recognize the importance of promoting the interests of their employees, suppliers, communities, and environment as well as their customers and investors.

The purpose of a business is why it exists, is created, and its reason for being. It is fundamental to every business and should drive its core strategy and activities. This is currently associated with the commercial success and profitability of business but what the report demonstrates is the need to look beyond bottom-line financial returns to shareholders to impacts on societies and environments in which business operates.

The report draws on an immense amount of new as well as existing evidence on both business and societies views on purpose. It observes that business is increasingly recognising the significance of corporate purpose, but that Scottish citizens are looking to business to play a still stronger part in promoting employee, societal and environmental wellbeing.

The report describes many impressive examples of Scottish companies which are doing exactly that and demonstrates how purpose can be placed at the heart of every Scottish business. It discusses the immense benefits that derive from this in terms of creating fulfilling, meaningful, rewarding employment which enhances the trust that customers, communities, investors, suppliers, and government place in business.

Finally, the report sets out a series of recommendations for how business, government, investors, consumers, and educational institutions can all contribute to embedding purpose throughout the Scottish economy and how working together they can promote a prosperous, flourishing, and fair society.

We commend the report as providing the most comprehensive, practical, evidence-based description to date of the public policies and business practices that together can make Scotland the world's leading purposeful economy. While it is focused on Scotland, we hope that it will inspire businesses, governments and citizens around the world to establish similar commissions to investigate and initiate a global



movement to purpose driven businesses and economies. The world needs them.

We would like to express our thanks to the Commission Members for their involvement in the programme, to all members of SCDI and the Scottish Government engaged in the study, and in particular to Gareth Williams for the immense amount of work he put into organizing and drafting the report.

22 May 2022



**Colin Mayer CBE FBA**

Emeritus Professor of Management Studies  
University of Oxford



**Amanda Young**

Chief Sustainability Officer  
abrdn



# CALL TO ACTION

Scotland has outstanding purposeful businesses – old and new, large and small, in every sector and place. Some were created as purpose-led businesses while others have developed purposeful principles and goals over time. Some small firms are undoubtedly purposeful in what they do but do not describe themselves that way.

Many more businesses would benefit from embarking on their own business purpose journey. The business case for business purpose is strong and the ethical case for change is clear. A diverse mix of profitable businesses and a prosperous and sustainable society go hand-in-hand. Our economy must develop fairly and sustainably if our businesses are to thrive.

Our call to all businesses in Scotland is to act now to

develop and nurture your business purpose. Leaders who embed a clear purpose in their business will help to steer it through economic challenges to seize the business opportunities from solving problems for people and our planet. This will benefit your owners, employees, communities and the environment.

The growth, creativity, entrepreneurship and innovation of businesses has transformed Scotland's society and is transforming an increasing range of societies around our world. We need to focus those capabilities on finding profitable solutions to the challenges we now face.

Here are our key reasons for you to make a strong commitment to business purpose:



## Grow your business

Purposeful businesses are more successful - and more resilient in tough times. Your business can gain an edge by attracting loyal customers, motivated employees and committed investors.



## Future-proof your business

Business-as-usual isn't an option. Gen Z, ESG investors purposeful companies and governments are reshaping markets. Your business can embrace change and purpose-driven innovation to protect its future



## Be part of the Solution

We all want a positive future for our families, communities and society. People and the planet face big challenges. Your business can profit from finding solutions we need.









# INTRODUCING THE BUSINESS PURPOSE COMMISSION FOR SCOTLAND

We were set up by the Scottish Government working in partnership with SCDI:

***“to make recommendations for how Scotland can become known at home and globally for nurturing purposeful businesses which make a positive impact on economic prosperity, social wellbeing and environmental sustainability.”***

We are a Commission of 25 members, drawn from across businesses of all sizes and different ownership models in Scotland, education institutions, civic organisations and trade unions.

## Co-Chairs:

- **Colin Mayer CBE FBA**, Emeritus Professor of Management Studies, Blavatnik School of Government and Saïd Business School, University of Oxford, and Academic Lead, The Future of the Corporation Programme, The British Academy
- **Amanda Young**, Chief Sustainability Officer, abrdn

## Commission Members:

- **Barry Blamire**, Head of Branch, John Lewis & Partners Edinburgh (from January 2022)
- **Sarah Davidson**, Chief Executive, Carnegie Trust UK
- **Sean Duffy**, Chief Executive, The Wise Group
- **Douglas Farish**, Head of Tax for Scotland, and Senior Partner, Edinburgh office, Deloitte
- **Patricia Findlay**, Distinguished Professor of Work, Employment and Organisation, University of Strathclyde
- **Crawford Gillies**, Chair, Edrington
- **Alison Graham**, Company Secretary, Baillie Gifford
- **Jamie Grant**, Owner & Director, Glen Lyon Coffee
- **Poonam Gupta OBE**, CEO, PG Paper Company Ltd
- **Lewis Hedge**, Deputy Director, Fair Work and Labour Market Strategy, Scottish Government
- **Dr Ifeyniwa Kanu**, CEO & Founder, IntelliDigest
- **Josiah Lockhart**, CEO, Firstport Group
- **Jamie Maxton**, Head of External Relations (Scotland), SSE Renewables
- **David McNeill**, Director of Development, Scottish Council for Voluntary Organisations
- **Andrew Murphy**, Chief Operating Officer, John Lewis Partnership (to January 2022)
- **Paula Murphy**, Chief Communications and Marketing Officer, Wood
- **Pat Rafferty**, Scottish Secretary, Unite the Union
- **Brie Read**, Entrepreneur and Founder, Snag Tights
- **Clare Reid**, Director of Policy and Public Affairs, SCDI
- **Dr Lesley Sawers OBE**, Non-Executive Director, Crosswind Developments
- **Ian Walker**, Global Programme Lead, Essential Surgery, Janssen
- **Scott Wilson**, Executive Director – Development, Robertson Group
- **Elliot Wishlade**, Director, Ove Arup & Partners Ltd



In taking forward our task, we have reviewed the international evidence on business purpose and public trust in businesses; researched widely the views of people, businesses and stakeholders; and discussed with businesses, stakeholders and young people the future role of business in society and how to realise opportunities for businesses in purpose-led success.

We have worked together to develop practical recommendations which will enable substantially more Scottish businesses to be successful by meeting the needs of our society and world as well as those of their investors, staff, suppliers, customers and communities.

We thank Scottish Government Ministers for the chance to report on this vital area at a critical juncture for Scotland's economy and for the future of people and the planet, and, in doing so, to draw inspiration from the experiences of purpose-driven businesses around Scotland.





# BUSINESS PURPOSE FRAMEWORK

## Vision

*“By 2030, all businesses in Scotland will have become purposeful businesses which profit from finding solutions for people and planet.”*



	Opportunity One: Supporting Businesses with Purpose
	Opportunity Two: Financing Purposeful Business Growth
	Opportunity Three: Empowering Employees to Drive Purpose





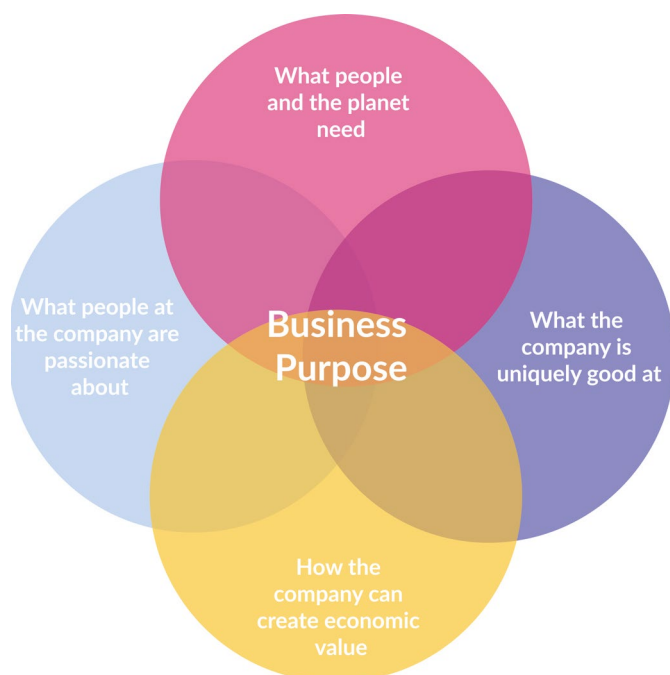
# EXECUTIVE SUMMARY

## What is business purpose and why does it matter?

A business's purpose is its reason for being – defining, guiding and driving all of its activities.

A strong business purpose makes clear to customers why they should buy from you, to people why they should work for you and to society why it should trust you. Serving a purpose well earns your company profits.

Companies can define strong purposes by thinking about:



Source: Adapted from Joly, H., *The Heart of Business*

Businesses are now leading a movement towards adopting business purposes. This is because a sure sense of its purpose focuses a business on how to tackle major business challenges and make a positive impact on society, nature and the environment – at a time when trust in business is fragile and many people want businesses to show leadership on these vital issues.

Purposeful businesses are identifying and expressing the need for a clear shift in purpose to one in which good results are achieved for all of businesses' stakeholders by:

- Delivering value and service excellence to their customers;
- Investing in the skills, well-being and pay of their employees;
- Partnering fairly and ethically with their suppliers;
- Supporting the communities in which they work;
- Caring for the environment and the natural world; and
- Generating long-term value for their shareholders <sup>1</sup>

Prioritising profits and returns to shareholders as the sole purpose of business has been shown to harm social prosperity and environmental sustainability on which successful businesses are built. This has frayed trust in businesses and put at higher risk their 'social licence to operate'. It has also delivered poorer longer-term results for many businesses. In contrast, businesses which harness business purpose achieve better financial results.

<sup>1</sup> Source: Adapted from US Business Roundtable 'Statement on the Purpose of the Corporation 2019'

## Evidence of better financial results

### Long-term Evidence

Group of purposeful businesses returned **6x more to shareholders** than explicitly profit-driven rivals (1926-1990)

Source: Collins, J. & Porras, J., *Built to Last: Successful Habits of Visionary Companies*.

### COVID-19 Crisis

Companies with highest shareholder returns were **47% more purposeful on average** than companies with lowest – a **12% wider gap** than pre-crisis

Source: Milano, G.V., The Harvard Law School Forum on Corporate Purpose, *The Return on Purpose: Before and During the Crisis*.

### Next 15 Years

Purposeful businesses forecast to achieve: **10% higher growth**  
**9% higher total shareholder returns**

Source: The Enacting Purpose Initiative, *Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism*.

The business benefits of purpose are forecast to continue to grow. Young people are particularly looking to businesses for leadership, and, as their future employees, producers and suppliers, it is in businesses' interests to act. The risks for businesses that do not become more purposeful or are seen to be inauthentic ("purpose-washing") by their customers and employees will increase further and will continue to be amplified by digital technologies and social media. These businesses will be more likely to lose sales and skills.

To enable more businesses to benefit and establish public trust, business and policy leaders and academics working together in the British Academy's 'The Future of the Corporation' programme have proposed that the role of business in society should be defined as:

***The purpose of a business is to "find profitable solutions to the problems of people and planet, not to profit from creating problems for either."***<sup>2</sup>

For businesses, this can drive profitability in a range of related ways, including:

- Attracting new customers, and increasing your customer loyalty and trust;

- Attracting and retaining talent, and unleashing their full potential;
- Attracting new sources of investment to help grow your business;
- Focusing on profitable solutions to increase creativity and innovation;
- Deepening your business relationships and making them work for both sides; and
- Improving your environmental stewardship and reducing resource costs.

These contribute to a stronger, greener, more resilient economy, fair and meaningful work and wellbeing, entrepreneurship and innovation, and a deeper sense of community and trust.

### What is the current position and how do we make progress in Scotland?

The Commission has engaged widely on how more businesses in Scotland can find profitable solutions to the problems of people and planet, not profit from creating problems for either.

We asked about business purpose in a public opinion poll.<sup>3</sup> Half of the people we surveyed think that the reputation of businesses in Scotland is excellent or

<sup>2</sup> [Reforming-Business-for-21st-Century-British-Academy.pdf \(thebritishacademy.ac.uk\)](#)

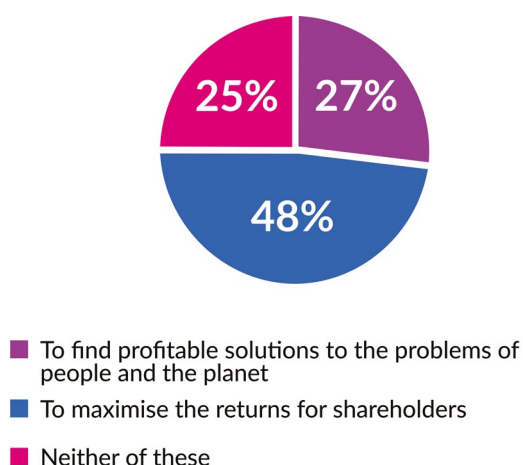
<sup>3</sup> Notes to editors: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1002 adults. Fieldwork was undertaken between 24th - 28th February 2022. The survey was carried out online. The figures have been weighted and are representative of all Scottish adults (aged 18+)



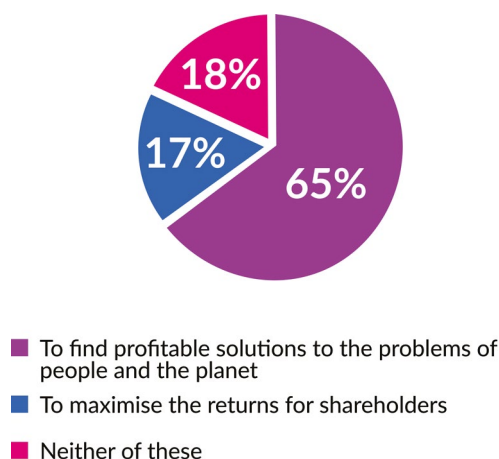
good. However, while only 5% said bad or terrible, just under a half of people have a neutral opinion of the reputation of businesses or did not know, including a higher proportion of people in lower skilled jobs. <sup>4</sup>

Critically, nearly two-thirds of people (65%) in Scotland want businesses to find profitable solutions to peoples' problems and those of our planet:

### Role businesses *currently* have in society in Scotland



### Role businesses *should* have in society in Scotland



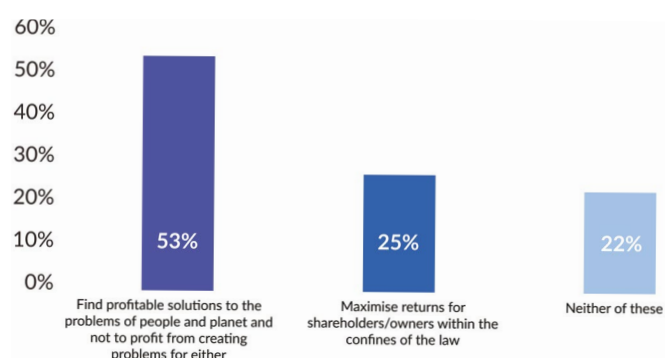
Source: Omnibus survey. 24th-28th February 2022. Survey of 1002 adults.

More people say that businesses' purpose, values and beliefs do influence whether they choose to buy from or support, <sup>5</sup> or work for, <sup>6</sup> a business than say

that they do not. This gives purposeful businesses a competitive advantage. The most popular actions to increase peoples' trust were paying the real living wage as a minimum (52%), paying fair levels of tax (38%), providing job security for employees (32%), and making a clear commitment to customer services (30%).

We worked with the Fraser of Allander Institute to survey the Scottish business base and found that most also believe that businesses should play a purpose-driven role in society:

### Role of businesses in society - Overall



Source: Scottish Business Monitor, 2021 Q3. Survey of 475 businesses <sup>7</sup>

We have also found that many businesses have recently taken responsible business actions and that people in various capacities – board members, managers, employees, customers and talent that may be attracted – have made the strongest influence on why they have acted.

This is welcome, but there is a need now to scale-up business's actions. Scotland CAN B, a partnership between the Scottish Government and B Lab to support businesses, suggests that the tipping point for business purpose in Scotland would be when 36,000 or 10% of businesses can define, measure and manage their environmental, social and governance impact. <sup>8</sup> We asked businesses what is needed to make progress, and the most popular options were:

- Encouraging investment in purposeful

<sup>4</sup> As defined by C2DE social grade definitions i.e. skilled manual workers; semi and unskilled manual workers; and state pensioners or widows (no other earner), casual or lowest grade workers.

<sup>5</sup> Choose to buy from or support a business: Yes, it does (54%), No, it doesn't (27%), Don't know (19%)

<sup>6</sup> Choose to work for a business: Yes, it does (49%), No, it doesn't (28%), Don't know (23%)

<sup>7</sup> [Scottish Business Monitor, 2021 Q3 | FAI \(fraserofallander.org\)](https://www.fraserofallander.org/) 'Which ONE, if either, of the following statements, do you think BEST reflects the role businesses have in society?'

<sup>8</sup> [Theory of Change – Scotland CAN B](https://www.scotlandcanb.org/)

businesses;

- Creating new and effective ways of operating;
- Giving employees an effective voice in businesses;
- Supporting purpose-driven business models; and
- Developing actionable goals for purposeful businesses.

The findings reinforce our view that businesses are the main agents of change to drive business purpose in Scotland. Our report therefore starts with a section on 'How to make purpose work for your business'. Whatever their starting point, we want to encourage and enable many more businesses in Scotland to

embark on their journey to become purpose led.

It needs to be as easy as possible for businesses to become purposeful. As we highlight in the report, the framework and ecosystem for business purpose in Scotland have increasing strengths, but they do not yet have the impact necessary to support transformational change.

In response, we have agreed the vision below for business purpose in Scotland for adoption:

## Vision

***“By 2030, all businesses in Scotland will have become purposeful businesses which profit from finding solutions for people and planet.”***

Under this vision, we have identified three themes through which Scotland has opportunities to accelerate business purpose, each of which we look at in detail in sections of our report:

**OPPORTUNITY 1: Supporting businesses with purpose.** Fostering a world-class corporate governance and business support ecosystem which mainstreams purposeful businesses.

**OPPORTUNITY 2: Financing purposeful business growth.** Capitalising on Scotland's sustainable finance cluster to stimulate and increase investment in purposeful businesses.

**OPPORTUNITY 3: Empowering employees to drive purpose.** Creating opportunities through skills development and fair work for everyone in work to help find profitable, sustainable and mutually-beneficial solutions.

To deliver these opportunities, we recommend 12 key actions. These include actions for businesses, governments and stakeholders to lead. Our aim has been to propose practical actions which produce system-wide improvements, stimulating and nurturing businesses at every stage of their purpose journey. This includes embedding business purpose fully within existing or emerging programmes of policies and actions, connecting them and strengthening their delivery. Key details on each of the actions are in the 'Recommendations' section.

The result of implementing these 12 actions would be transformational for business purpose in the Scottish economy, and accelerate progress in finding solutions for people and planet:



Lead	Action
Businesses	1. Define, communicate and measure their business purpose
	2. Develop and deliver their purpose through their people strategies
	3. Increase investment in purposeful businesses by establishing a world-leading ESG investment hub
	4. Form purpose-driven private, public or third sector partnerships to share learnings, influence change and increase impacts
	5. Work with government and stakeholders to inform and mobilise customer and societal expectations of business purpose
Education and Training Organisations	6. Make business purpose a mandatory learning outcome in business education and training
UK Government	7. Amend company law and reporting to require businesses to state and report on their business purpose
	8. Encourage and make it easier for new and existing businesses to adopt purpose-driven business structures
	9. Produce a Tax Framework for Purposeful Business which incentivises purposeful business models and practices
Scottish Government	10. Mainstream and scale-up public and private sector business support for business purpose
	11. Make business purpose a golden thread in the National Strategy for Economic Transformation Delivery Plan
Local Government	12. Develop place-based networks to engage businesses in tackling local economic, social and environmental missions





# GUIDE FOR BUSINESS

## How to make purpose work for your business

*“...the whole enterprise should move the in the right direction. It’s a challenge, a journey, and a complicated dance, and you can’t get there in one leap. The goal is to be better tomorrow than today.”*

Paul Polman, former CEO, Unilever <sup>9</sup>

### Introduction

Purpose drives business success and can make business work better for everyone.

We know that many businesses are already taking action, and in our surveys and discussions we have found that businesses at all stages of their purpose journey want to make progress.

However, as we have set out, we are also fully aware of the challenges for many businesses, particularly in the current climate. Businesses want to be as sure as possible that the benefits will outweigh the costs and risks for them. They want to know the practical steps that they can take, and how they can access advice and support which is relevant and tangible for them in overcoming barriers to business purpose, such as investment, training and measurement.

Purpose can help to drive profitability in a range of related ways, including:

- Attracting new customers, and increasing your customer loyalty and trust

- Attracting and retaining talent, and unleashing their full potential
- Attracting new sources of investment to help grow your business
- Focusing on profitable solutions to increase creativity and innovation
- Improving your environmental stewardship and reducing resource costs

We present here some steps which businesses can take on their purpose journey, sources through which they can access advice, support, tools and connections with fellow businesses, and case studies from a range of businesses in Scotland of different sizes, structures, sectors, and geographies who talk about their purpose journeys and the benefits.

All businesses can benefit from defining, communicating and measuring their business purpose in the context of “finding profitable solutions to the problems of people and planet, and not profiting from creating problems for either of them”.

Your purpose should be appropriate for your size, market and stage on your business journey. Some companies may define their role in relation to customers, society or the world. Smaller businesses may define their role in improving the lives of their customers and communities. Easy-to-use tools are accessible to help measure, manage and improve your performance.

<sup>9</sup> Polman, P. & Winston, A., *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*

## Potential stages of business purpose journey

### Starting Out

- ✓ Want to do the right thing
- ✓ Ready to build on actions
- ✓ Focus on people
- ✓ Want to learn benefits
- ✓ Open to help

### Growing

- ✓ Reactive to proactive
- ✓ Ready to address gaps
- ✓ Increase staff engagement
- ✓ Improve communication
- ✓ Measure and manage

### Leading

- ✓ Future-proof
- ✓ Seek problems to solve
- ✓ Aim for net positive impacts
- ✓ Lead and share lessons
- ✓ Influence social norms

Be open and transparent about both your successes and challenges, and proactively work with your peers and stakeholders to make progress. Participate in and promote your commitment to action-oriented business purpose partnerships with stakeholders and government. Give people the facts they need to make positive choices. You can positively influence your customers, communities and society to support business purpose and a sustainable and inclusive society. People want more business leadership and engagement on societal issues and believe that solving societal problems is a strength of business. You can help to create the environment in which purposeful businesses – such as your own – thrive.



## Journey Primer

### Bear in Mind

- ✓ The benefits of business purpose are open to your business and every other business
- ✓ Business purpose is a journey and every business can always make progress
- ✓ Your business is likely to carry out some responsible business practices already – you may be more ready than you think to take your next steps in building business purpose
- ✓ There's no one-size-fits-all approach, but many great examples you can learn from
- ✓ There are tensions and trade-offs for all businesses in delivering business purpose, but a clear and meaningful business purpose helps you to work your way through them
- ✓ Lots of helpful advice and support is available (see [Annex](#) for examples of Initiatives and Networks) and business purpose will open up useful new sources for your business
- ✓ Designing and delivering a business purpose with societal value should be personally and professionally stimulating and rewarding for you and everyone in your business

### Developing Your Purpose

**The purpose of a business is to “find profitable solutions to the problems of people and planet, not to profit from creating problems for either.”**

The British Academy, *The Future of the Corporation*

Source: The British Academy

- ✓ Think about why your business exists and what it offers that will make it stand out
- ✓ Your purpose should be the guiding star for your strategy and all parts of your business

- ✓ Discuss the definition of business purpose (above) and take inspiration from examples on company websites, such as the John Lewis Partnership's updated purpose (below)
- ✓ Your purpose should be right for your business. For a small business, it might be to:
  - Provide products that last and the best customer service in a community
  - Attract new customers by offering higher pay and fair work for your sector
  - Help local people with jobs by offering good quality and flexible childcare
- ✓ Find the best ways to include everyone/all things your business has a responsibility to:
  - Employees
  - Owners/investors
  - Customers
  - Suppliers
  - Communities
  - Nature and the environment
- ✓ Make your purpose simple so it is understood by everyone, authentic and practical
- ✓ Bring the responsible business practices you already carry out into your core
- ✓ Be clear about how you harness what you do to benefit people and the environment
- ✓ Put your purpose into your Articles of Association – you can do it under current laws

### John Lewis Partnership's Updated Purpose 'Working in Partnership for a Happier World' <sup>10</sup>

Our Partnership is an ongoing experiment to find happier, more trusted ways of doing business, for the benefit of us all.

We work together to create a successful business and a fairer, more sustainable future for Partners, customers, suppliers and communities.

Our Partnership is owned entirely in trust

by Partners which means we are more than employees; we share knowledge, power and profit.

Our Purpose inspires our principles, drives our decisions and acts as our guide.

Source: John Lewis Partnership

## Connecting Purpose and Strategy

- ✓ Embed purpose in business strategy and decision-making, and organise around it
- ✓ Think about what your purpose will make you do
- ✓ Review your internal business practices, and the products and services you offer
- ✓ Set out clearly why purpose is material to the performance of your business
- ✓ Be clear that purpose acts as “guardrails” to protect the business from bad decisions
- ✓ Use the eight principles below to help you cover all the features of a purposeful business:





- ✓ If your business is at a key point in its existence (e.g. creation, scale-up, sale etc.) think about what you can do to make sure it retains its purpose (e.g. include its purpose in its Articles of Association, change its legal structure, change its business model etc)
- ✓ Connect purpose with drivers of resilience e.g. leadership, adaptability and diversity

## Everyday Purpose

- ✓ Implementation needs a strong focus and it's where you really make a difference
- ✓ Make your purpose 'live' in your business culture and bring everyone on your journey
- ✓ Help everyone understand how purpose should guide their decisions and behaviours
- ✓ Show your intent through some early decisions which support your purpose
- ✓ You can break your business purpose down into smaller tangible everyday actions
- ✓ You can also pilot and prove the benefits of business purpose in one part of your business before rolling-out the approach across the other areas of your business
- ✓ Incentivise and reward your team fairly for progress with your business purpose

## Partners in Purpose

- ✓ Forge ties with social enterprises, voluntary organisations, community groups etc – they are experts in delivering societal impact and you can learn from their approach
- ✓ Your expertise on market demand can help strengthen their organisation and impact
- ✓ Local colleges and universities can also work with you on purpose and social goals

- ✓ Create opportunities for your business to come together with the potential partners

## Measure and Communicate Your Progress

- ✓ Measure what is important, learn from what you measure
- ✓ Set some milestones, and track and personally communicate your progress
- ✓ Bring together reporting on your commercial, social and environmental performance
- ✓ Use Customer Performance Indicators to connect your business purpose with sales by measuring how well you are helping customers to achieve their personal purposes
- ✓ Easy-to-adopt tools are publicly accessible to help you measure your progress – you can source one from websites or contact a network or a business adviser
- ✓ Be open, transparent and accountable, and don't be afraid to acknowledge missteps
- ✓ Talk about it in your brand, investor, talent, supplier, community etc engagement
- ✓ Celebrate both small and large successes in every part of your business

## Roles of Board, Employees, Owners/Investors & Customers in Driving Business Purpose

### Board

- ☐ Set your purpose now
- ☐ Engage all stakeholders on their priorities
- ☐ Seek good advice, support & training
- ☐ Check if your structure & model will deliver
- ☐ Embed purpose in your strategy & own its delivery
- ☐ Keep purpose in mind at all times & use it to guide decisions
- ☐ Create the right culture & exemplify it
- ☐ Reward delivery by employees fairly
- ☐ Track & communicate your progress
- ☐ Be open about mistakes & how you are fixing them
- ☐ Be brave if there is pressure to abandon purpose
- ☐ Partner with companies, the third sector, education & government
- ☐ Promote purpose in your own buying & value chain
- ☐ Share learnings inside & outside your business
- ☐ Celebrate & communicate successes

### Customers

- ☐ Try to buy from purposeful businesses
- ☐ Let businesses know where they are getting it right & where they could do better
- ☐ Be an advocate for purposeful businesses

### Employees

- ☐ Engage with employer & other stakeholders to set purpose
- ☐ Organise to provide for an effective voice
- ☐ Commit to driving business performance through purpose
- ☐ Be part of a positive purpose-driven culture
- ☐ Keep purpose in mind at all times & use it to guide decisions
- ☐ Suggest purposeful ideas & offer constructive feedback
- ☐ Be active in purposeful ideas & offer constructive feedback
- ☐ Be an advocate for your business when it does well
- ☐ Share learnings inside & outside your business

### Owners/Investors

- ☐ Transition to & communicate about purposeful investing
- ☐ Engage with business & other stakeholders to set purpose
- ☐ Offer the diverse financial products that purposeful businesses need
- ☐ Provide patient capital to support investment & innovation
- ☐ Support a fair share of business earnings for pay & pensions
- ☐ Offer ongoing advice & support
- ☐ Track progress & help keep the business on track
- ☐ Stay the course when times are tougher
- ☐ Share learnings from/with other businesses



## Case Studies

We have heard from many businesses about the power of case studies with whom they can identify in highlighting the benefits of the business purpose journey and in sharing lessons and good practice. We present over the following pages eight inspirational case studies from a diverse range of Scottish businesses committed to purpose. These businesses are:

Business	Sector	Ownership	Size	Location
Advanced Clothing Solutions	Clothing	Private limited company	Medium	North Lanarkshire
Amicus	Technology	Private limited company	Small	Edinburgh
Edrington	Drinks	Private limited company (with a Trust as its principal shareholder)	Large	Scotland-wide, global
Jerba Campervans	Tourism	Employee ownership	Small	East Lothian
Macphie	Food manufacturing	Family business	Medium	Aberdeenshire
Muckle Media	PR	Private limited company	Small	Edinburgh, Glasgow and Inverness
The No.1 Befriending Agency	Care	Social enterprise/ Community Interest Company	Small	Glasgow
SSE	Energy	Public limited company	Large	UK-wide

We have also recorded interviews with some of them and other purposeful businesses.

These are available here [www.scdi.org.uk/bpc](http://www.scdi.org.uk/bpc)

## Advanced Clothing Solutions

### What is your business purpose?

To be the leading enabler of the fashion industry's circular economy in Europe by providing brands and retailers with profitable solutions that extend the life of clothing and recycle textile waste.

### Describe your purpose journey/what makes you a purposeful business?

ACS started as a kilt hire business focussed on the Scottish market. After growth, expansion and diversification into clothes hire for the men's woman's and children's markets in the fashion industry, the business provided services to hundreds of UK retailers. With increasing consumer concern about the environmental and social impact of the industry, we then embarked on a journey towards delivering stronger and healthier communities and environments across not just the UK but Europe by introducing our circular fashion business models.

### How do you develop and track your purposeful actions?

We engage widely with customers and suppliers, employees, partners and stakeholders.

Our staff is our best asset and have led actions to minimise the impact of cleaning garments, and reuse or recycle any wastes. They have influenced development of our online training academy, our recruitment of local disadvantaged job seekers, award winning apprenticeship programmes. payment of the real Living Wage and our staff welfare initiatives.

We ensure regular, high-quality communication with stakeholders and work with external partners to track the climate impact of our activities, with feedback from both used to inform decision-making.

### What difference has being\$/becoming more purposeful made to the success of your business?

We have found that doing the right thing for people and planet helps realise good profits. When the pandemic hit the formal market, our investment and new business model made us resilient and enabled a shift in our focus to servicing the emerging market for renting everyday clothing.

The resale market is expected to outgrow fast-fashion significantly. The industry urgently needs to change. Our purpose sets us apart from competitors and benefits our brand partners. Investment in people, facilities and technologies means that customers know we are agile, ethical, and sustainable. As a consequence of delivering our purpose our business is growing exponentially.

### What help do you/could you offer to other businesses who want to become more purposeful?

Our ambition is for ACS and Scotland to help transform the global fashion industry. We cannot do this alone and learn as we go. We receive great support from public, voluntary and private sector partners, including Scottish Enterprise. In turn, we are committed to sharing our experiences and good practice.





## Amicus

### What is your business purpose?

At Amicus, our purpose lies in our mission to “reinvent the delivery of regulated services and make legal help accessible”. This mission informs our strategy to provide “the UK’s most trusted compliance and onboarding platform” while motivating our social value-led research, partnerships and product development. Guided by a clear set of core values (truth, privacy, accessibility), our profit-for-purpose business model enables our colleagues, clients and partners to share in our success.

### Describe your purpose journey/what makes you a purposeful business?

Whatever the problem, we believe technology has an important role to play in turning regulatory burdens into commercial opportunities, so that we can all get to work on the things that matter faster. In 2021, our platform saved the NHS £1.3 million worth of cost by replacing manual recruitment processes with secure, online pre-employment screening, directly enabling one of most successful covid 19 vaccine rollouts in the UK.

### How do you develop and track your purposeful actions?

We consider ourselves to be growing in a purposeful and sustainable manner when we are looking after our people; providing exceptional service to our clients and investing in research and partnerships that create social value. One example of the latter was our participation in the pilot of ProxyAddress, a project to enable people at risk of homelessness gain access to vital financial services supported by our technology.

### What difference has being purposeful made to the success of your business?

A long-term approach to purpose in business creates sustained value, happier clients, higher employee satisfaction and greater financial returns to shareholders. As part of the Tech Nation Upscale 7.0 cohort, Amicus is recognised among the fastest scaling technology companies in the UK; our clients reported over 95 percent satisfaction in how support requests were handled in 2021 and our client retention rate sits at over 99 percent over a rolling six-month period. In

January 2022, over 80 percent of employees surveyed saw themselves still working at Amicus in two year’s time.

### What help do you/could you offer to other businesses who want to become more purposeful?

We take an open-source approach to the knowledge we acquire. We’re always ready to share what we’ve learned and what we still have ambitions to implement in terms of our strategy, brand and culture. We’re committed to proving every day that profit-for-purpose companies headquartered in Scotland can and will scale sustainably.



## Edrington

### What is your business purpose?

Edrington's *Giving More* vision is to become the world's best at crafting exceptional ultra-premium spirit brands loved by our consumers. This stems from a unique ownership model for our industry.

### Describe your purpose journey/what makes you a purposeful business?

Edrington was founded by William Robertson 161 years ago to be a company that makes a positive contribution to its communities. His granddaughters formed a charitable trust to own the business 100 years later. They wished to extend the support they had given to charities in their lifetimes through the future success of the family business. Financed by dividends from Edrington, The Robertson Trust has given more than £300m over the last 60 years as Scotland's largest grant-making charitable trust.

The company and trust double-match all employee fundraising, meaning that £1 becomes £3. All employees can take four days' paid leave to volunteer for causes they are passionate about. As the business has grown globally, the strong sense of purpose has been embedded worldwide. Edrington contributes up to 1% of earnings before interest and tax to charities and good causes around the world.

### How do you develop and track your purposeful actions?

Edrington's *Giving More* purpose was developed by the company's leadership on a strategic level. We aim to give more to our consumers, employees, shareholders and the communities in which we operate. Our charitable initiatives are now developed and managed by employees.

The company targets employee engagement levels in the top quartile of companies. This is measured biennially through a survey by a third-party company and reported in Edrington's Balanced Scorecard, which tracks performance against strategic priorities, including sustainability and diversity targets.

### What difference has being/ becoming more purposeful made to the success of your business?

Edrington's values underpin our business model and are integral to the company's financial success. The company's purpose helps drive performance that is consistently in the top quartile of the global spirits sector. Surveys confirm that our ownership and purpose attract and retain our talent, and that Edrington has a strong reputation for integrity in our business dealings. Production of high-quality matured spirits requires long-term strategy and investment in operations. Our model of private ownership with a long-term principal shareholder is a significant advantage.

### What help do you/could you offer to other businesses who want to become more purposeful?

Through our trade associations and business organisations worldwide, Edrington contributes support and advice to other companies in the industry and business community. Edrington has recently confirmed our commitment to the Scottish Business Pledge programme.



EDRINGTON



## Jerba Campervans

### What is your business purpose?

Providing secure, well paid and rewarding long term employment underpin our business – as a 100% employee business we profit share equally across all employees. Our commitment to people and planet is demonstrated through our certification to the Good Business Charter. Through this approach we are building a dynamic, growing and profitable business that can have a real impact on income inequalities.

### Describe your purpose journey/what makes you a purposeful business?

When deciding on a business succession plan, seeking to try to secure the future jobs of the company employees was key. Selling my 100% ownership to an Employee Ownership Trust has deepened employees involvement in both short term solutions and long term strategy, created an environment where teamwork, communication and commitment are driving up productivity and profitability, and given them control over their future job security.

### How do you develop and track your purposeful actions?

We aim to create more jobs where all employees can benefit from the job security, engagement and fair work that we create. We have active innovation teams and share all company information – open and honest communication with all stakeholders develops and builds trust, it is vital to our success. We place our 100% employee-owned status front and centre, our customers love it and it gives us a unique USP.

### What difference has being/ becoming more purposeful made to the success of your business?

Without capital investment our productivity has increased by 16% and profitability by 20% since becoming employee owned in January 2018. These have been driven by a surge in teamwork, absence of employee churn, a real employee commitment to 100% customer satisfaction, added impetus for continual improvement, innovation across the business and the engagement of customers with our employee ownership model. It simply makes good business sense!

### What help do you/could you offer to other businesses who want to become more purposeful?

I present at business gatherings on our company succession path into employee ownership and on a regular basis I also speak one to one. Internally one of our company objectives is to promote the employee ownership model and we actively encourage other businesses to visit us and meet our employees. We have nothing to hide and would love to give more companies the opportunity to understand the benefits of the EO model.



## Macphie

### What is your business purpose?

As well as to ignite a passion for food in everyone we meet, the purpose of Macphie is focused on achieving stable and profitable growth that provides jobs and creates wealth in the local area – rather than maximising short-term returns for shareholders.

### Describe your purpose journey/what makes you a purposeful business?

This focus is driven by the Macphie family. Now a third-generation family enterprise, Macphie was established in the 1920s as a bakery wholesale business in Glasgow with six employees. We moved into manufacturing bakery and foodservice ingredients in 1954 before relocating to the Glenbervie Estate in 1973, which has been in the Macphie family since the 13th century. Today, our products are used globally by chefs and bakers and we employ around 230 people.

We're passionate about corporate social responsibility and invest time, resources and money to proactively preserve the environment and build meaningful links with community groups, charities and educators. It's a key part of who we are and is built into everything we do.

Macphie's sustainability agenda is closely aligned with family business values and strong governance. Over ten years ago the family codified its vision and values, creating a family constitution that delineates the family's relationship with its business. The central element of this structure is the Family Council, tasked with oversight of the family's social, educational and business activities. This clarity of purpose has served to accelerate the firm's ability to embed CSR into its strategy.

### How do you develop and track your purposeful actions?

The accolade of B Corp status marked an important milestone in our company's journey and is a considerable source of pride for the firm. Since certifying in 2015, B Corp has given us an actionable structure to work within but we're also careful to tailor our strategies and targets to work best for our people and our communities.

### What difference has being/ becoming more purposeful made to the success of your business?

Being a purposeful business with B Corp certification makes us an attractive supplier and partner to like-minded businesses, allowing us to work on a more strategic level, working towards mutual growth.

### What help do you/could you offer to other businesses who want to become more purposeful?

We have an open-door policy in that should anybody want or need advice on how we achieved our B Corp certification, we're here for them.



## Muckle Media

### What is your business purpose?

At Muckle Media we are a digitally driven team who strive to deliver clear and concise communications for all of our clients to tell their stories while keeping in line with our core values: to be kind, get results and leave the world in a better place than we found it.

### Describe your purpose journey/what makes you a purposeful business?

Everything we do in our day-to-day jobs serves a purpose whether it's working with clients that align with our core values, creating a friendly environment and positive team culture for our employees or supporting the local community.

We were recently the first Scottish PR agency to achieve B Corp Certification which expects high standard, verified performance in a huge range of social and environmental issues. Through this journey, complete transparency and accountability are required and it has allowed us as an organisation to commit to goals that go beyond profit.

### How do you develop and track your purposeful actions?

We constantly engage with our clients and employees whether it's through frequent social events and dinners or regular catch-up meetings and check-ins via Zoom.

A tool we use to measure our employee satisfaction rate is OfficeVibe, a weekly survey where staff can give anonymous feedback on an array of topics that help us improve as a team.

As we have offices spread across Scotland we are always looking for different ways to engage with the local community in which we operate, most recently we sponsored youth football team, Ratho United, donated £2,000 to Glasgow charity Launch Food and have many more plans for the surrounding areas where our employees are based. We also have a member of the team who has gone through training to become a green champion, certified by Zero Waste Scotland. This training has allowed us to learn ways to become more energy efficient and reduce our carbon footprint.

### What difference has being/becoming more purposeful made to the success of your business?

Taking a more purposeful approach has helped us achieve our goal of becoming B Corp certified, achieving higher wellbeing scores within internal satisfaction surveys and being able to continue growing our team to over 20 members of staff.

### What help do you/could you offer to other businesses who want to become more purposeful?

We've learned that businesses need to be as clear and concise as possible when mapping out their purposeful values. Listening to your team and allowing feedback on your values is a great way to ensure that the whole business is comfortable and behind your purpose.

We'd recommend checking in on these values regularly to ensure they're serving their purpose as well as tracking results to show as a business you practice what you preach.





## The No.1 Befriending Agency

### **What is your business purpose?**

Our purpose is to build a more caring and connected society through our exceptional care and befriending services. We reinvest profits from our person-centred care service into our befriending services for older people, which are provided by trained volunteers and are free to our customers.

### **Describe your purpose journey/what makes you a purposeful business?**

We were formed by care professionals who realised that older people longed for company in addition to care. People who feel more connected have better health and wellbeing. They have lower levels of anxiety and depression, and higher self-esteem, and are more empathetic, trusting and cooperative.

Our vision was to develop a skilled, passionate and motivated and intelligent approach at tackling loneliness and isolation in communities, with robust and agile processes of working and a steward-like approach of business conduct. Our delivery model was based on offering support through 'cups of friendship' visits, but, with growing demand due to social isolation in the pandemic, we adapted it based on our vision. We maintained strong relationships with people by telephone and created frequent online meetings. We are now able to reach even more older people, our volunteers have become more diverse, and our 'befriendees' have developed their digital skills and confidence.

### **How do you develop and track your purposeful actions?**

We regularly seek feedback from the people we support and those close to them, and publish an annual Impact Report. Our impact might not be quantifiable at all times, but it is changing the world in small steps! We were delighted to receive the Social Enterprise Scotland Social Impact Award 2021.

### **What difference has being/ becoming more purposeful made to the success of your business?**

We are user- and volunteer-led, working in partnership with local community organisations and investing in skills development and learning, including digital

transformation. Some service users are actively involved with fundraising and three of our staff members were previously volunteers.

Being purposeful means that we engage with clients, staff and communities in the same values driven way and seek constant improvement. This creates bonding and bridging social capital which, leveraged the right way, can be transferred to financial capital and underpins a sustainable business model.

### **What help do you/could you offer to other businesses who want to become more purposeful?**

Our work is all about developing connections so we are happy to share our learnings. We have found that by thinking through what really matters before we begin the journey/ work, we have clarity and a shared purpose across our team, which enables us to bring in partners/stakeholders successfully.



## SSE

### What is your business purpose?

SSE's purpose is, 'to provide the energy people need today, whilst building a better world of energy for tomorrow'

### Describe your purpose journey/what makes you a purposeful business?

SSE firmly ascribes to the notion that the purpose of business must be to produce profitable solutions to the problems of people and planet. This framing of business purpose, inspired by Prof Colin Mayer and a British Academy project to define the 'Future of the Corporation' provided inspiration for SSE when revising its statements of business intent back in 2018.

A combination of a business vision, purpose and strategy set out a clear framework or compass that defines the company *raison d'être*. SSE's purpose, 'to provide the energy people need today, whilst building a better world of energy for tomorrow', simply encapsulates that SSE is in the business of delivering the profitable solutions to climate change at the same time as reliably meeting society's energy needs.

### How do you develop and track your purposeful actions?

SSE's business strategy outlines the practical application of its business purpose and establishes a strategic objective which is to 'create value for shareholders and society'. The guiding framework for that shared value creation is the United Nations Sustainable Development Goals, where SDG13, Climate Action, alongside SDG 7 Affordable and Clean Energy; SDG 9 Industry, innovation and infrastructure and SDG 8, Decent work and economic growth, have been identified (in conjunction with stakeholders) as being the most material way in which SSE can 'build a better world of energy for tomorrow'. 2030 business goals, linked to those SDGs inspire the organisation to reduce carbon intensity by a further 80%, increase renewable energy output fivefold, connect low carbon generation and demand at scale, and whilst doing those things, to lead a company response to ensure a fair and just transition to net zero. The clarity of this hierarchy of what SSE stands for, and the simplicity of the vision and objectives, has proved to be a powerful

rallying point for the organisation.

### What difference has being/becoming more purposeful made to the success of your business?

The first clause of the purpose statement is not to be overlooked and gives an example of how it has helped the business. At the start of the coronavirus pandemic, the focus to 'provide energy people need today' provided an equally powerful mantra to colleagues. Front of mind were the public service workers, delivering essential care to people and the criticality of 'providing people with the energy needed today', rarely felt so essential.

So, what might look like a simple and straightforward statement of purpose, is loaded with meaning and guidance for a company that seeks to make a sustainable contribution to the societies it services for a long time to come.

### What help or advice do you/could you offer to other businesses who want to become more purposeful?

Developing a business' 'reason for being' is a unique moment. For that purpose to be true, meaningful and relevant, it must be developed by the business itself, its owners, employees and shareholders. A very good starting point would be to consider exactly how the activities of this particular business establishes a profitable solution for the problems of people or planet. That will base its activities in a sustainable purpose over the long term.







# THE BUSINESS CASE FOR PURPOSE

## What is business purpose

Recent years have seen growing interest among businesses in adopting a business purpose.

This comes in response to a recognition of the growing environmental, social and political challenges as well as the conventional commercial and economic ones that businesses face.

The idea of business purpose is often found alongside (and sometimes used interchangeably with) Environmental, Social and Corporate Governance (ESG) and Corporate Social Responsibility (CSR). They are related, but there are significant differences between them (see below).

All of them are important. However, ESG metrics tend to focus on reducing the harms from business impacts, while CSR has traditionally been seen as non-core

rather integral to the business strategy, with distinct budgets that are a small fraction of a company's spending.

Business purpose encourages a more holistic view of how business activities generate financial, social and environmental value, and it can, as a result, be especially impactful.

The British Academy's 'The Future of the Corporation' reports defined business purpose as:

***The purpose of a business is to “find profitable solutions to the problems of people and planet, not to profit from creating problems for either.”<sup>12</sup>***

We have found positive levels of support for this description from people, businesses and stakeholders in Scotland, and we recommend that it is adopted by business and government.

Business Purpose	ESG	CSR
Business purpose is their reason for being, defines and guides their business activities, and explains why customers should buy from them, people should come to work for them and society should trust them.	ESG is a set of non-financial metrics that investors use to evaluate the impacts of businesses and decide whether to invest in them.	CSR is a single company's self-regulated commitments to making a positive contribution to internal and external stakeholders, not necessarily linked to the core business activity.

This definition of purpose encourages a focus on problem solving, business innovation, and an alignment of profit with the solving not creation of individual, social and nature-based problems. This stimulates business performance. It also promotes a productive relationship between business and government in solving local, national and global problems, and creates long-term value for customers, employees, suppliers, communities and shareholders.<sup>13</sup>

Business purpose acts as a 'guardrail' that keeps a business on track and helps to inform decision-making, particularly in times when difficult decisions have to be made.<sup>14</sup> A clear and accountable commitment to a business purpose is a foundation on which to create, strengthen and uphold relations of trust between a business and all its stakeholders.<sup>15</sup>

Business purpose highlights the importance of profitability – but profits that are an outcome rather than the sole focus of business activities. Recent events have emphasised the harms for working people and their families, communities and society as a whole when businesses are unable to generate profits. Profits are a positive and essential result of what successful businesses do, and the COVID-19 pandemic has shown the harms for working people and their families, communities and society when many businesses are unable to generate profits.

## Why there is a need to renew business purpose

Business purpose is not a 21st century concept.

There is a long history of businesses with clear purposes which are not solely equated with profit and which connect their business strategy with their wider social responsibilities. The corporation was established under Roman Law 2000 years ago as the *societas publicanorum* to perform public functions of minting coins, collecting taxes and maintaining public buildings. For nearly all of the history of business, it

has combined public with commercially profitable activities, sometimes through charters and licences that specify its public functions.<sup>16</sup>

Here in Scotland, Robert Owen's cotton mills at New Lanark, which proved the relationship between a profitable industrial enterprise, a productive, healthy and happy workforce, and a strong community, were greatly celebrated throughout Europe during the 19th century.

The John Lewis Partnership has been a business owned in trust by all of its employees since 1929, with principles for how the company should operate and a written constitution to help its Partners (the employees) understand their rights and responsibilities as co-owners.<sup>17</sup>

Just before it became a publicly traded company in 1943, Johnson & Johnson crafted its Credo which sets out its responsibilities to people who use its products, employees, communities and society, and shareholders. This links its business success and moral compass, and says that when it operates according to its principles, shareholders should realise a fair return.<sup>18</sup>

The family-owned Mars, Inc codified The Five Principles by which it operates – Quality, Responsibility, Mutuality, Efficiency and Freedom – in the early 1980s<sup>19</sup>, and in 2020 launched the independent Economics of Mutuality Foundation to shape an inclusive business model.<sup>20</sup>

But in the decades before the financial crisis of 2007-08 the predominant narrative became that the business of business is to maximise value for shareholders and owners whatever the routes to, and consequences of, so doing. Influential economist Milton Friedman said that "the one and only social responsibility of business is to use its resources and engage in activities designed to increase its profits so

13 [How value creation benefits stakeholders | McKinsey](#)

14 [epi-report-final.pdf \(enactingpurpose.org\)](#)

15 [Reforming-Business-for-21st-Century-British-Academy.pdf \(thebritishacademy.ac.uk\)](#)

16 See Mayer, C., *Prosperity: Better Business Makes the Greater Good*, Oxford University Press for a discussion of the emergence of the corporation and the purpose of business.

17 [John Lewis Partnership – Who we are](#)

18 [Our Credo | Johnson & Johnson \(jnj.com\)](#)

19 [The Five Principles | Mars, Incorporated](#)

20 [Mars Launches Independent Economics of Mutuality Foundation | Mars, Incorporated](#)

long as it stays within the rules of the game". This was the conventional view in business, business schools and governments' business policies.<sup>21</sup>

Prioritising the maximisation of shareholder value as the sole purpose of business has not only harmed the social prosperity and environmental sustainability on which successful businesses are built; it has also delivered poorer longer term results for many businesses.

The sustainability, financial resilience and social acceptance of companies all depend critically on the pursuit of purposes that recognise the relation of business to the wider societies and environments in which they operate. Without that, not only do businesses inflict immense damage from the environmental, inequality and social exclusion consequences of their activities but they also lose the trust of those on whom they depend and in whose interests they are supposed to act. The last two decades have witnessed mounting corporate collapses and scandals – Enron, WorldCom, VW, Wells Fargo, Sports Direct, Top Shop and most recently P&O, to name just a few companies that have undermined public confidence in business.

We present evidence in the 'What do people expect from businesses?' section that trust in many institutions in society, including business, has been declining in developed economies. Trust in businesses is deeply connected with the future of their 'social licence to operate'. Businesses increasingly understand that, beyond their legal rights, acceptance by the public of their business and how it is conducted is essential to its ability to operate successfully.

The standards to which people hold firms change and trend upwards. A wider social licence applies to industries and may change over time due to industry behaviours or public attitudes.

A social licence to operate takes time to build as businesses are seen to be good corporate citizens, but it can be lost quickly if problems are not successfully resolved and can be hard to recover. The changing

media landscape, including social media, has made communications between businesses and stakeholders two-way and businesses are increasingly held to account for building strong reputations, not only in capability but also in character. Their actions are more visible, and information is shared and reported almost immediately. Negative stories can go viral and cause far-reaching reputational damage very quickly.

More broadly, when public trust in business as an actor in society falls, the social licence which all businesses depend on to operate is diminished and the risks for all businesses rise.

Due to concerns about the impact of short-term decision-making on business performance, rising inequalities, political instabilities, declining trust in businesses, and climate change, shareholder primacy has been increasingly challenged from inside and outside businesses. For example, in 2019 the US Business Roundtable updated its statement on the Purpose of a Corporation to move away from this view of corporate governance.<sup>22</sup> CEOs committed to:

- Delivering value to our customers;
- Investing in our employees;
- Dealing fairly and ethically with our suppliers;
- Supporting the communities in which we work; and
- Generating long-term value for shareholders.

The COVID-19 pandemic and the Russian invasion of the Ukraine have further brought out the vulnerability of businesses and their supply chains to global shocks. They have served to emphasise the need for a clear sense of direction in determining how to respond and adjust to such events, and for companies to adopt purposes that go beyond the pursuit of profits.

This requires more than legal and regulatory compliance by businesses and even corporate social responsibility. There is a growing realisation that creating a fairer, more sustainable economy is only possible if businesses actively grow their wider contributions to people and planet.

21 [Reforming Business for 21st Century](https://www.thebritishacademy.ac.uk/reforming-business-for-21st-century) (thebritishacademy.ac.uk)

22 Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' | Business Roundtable



People are looking to businesses, small and large, to play a leadership role in tackling challenges which people in Scotland and around the world face. These challenges include:

1. Recovery from the COVID-19 pandemic, and the need for economic <sup>23</sup> and social <sup>24</sup> renewal and resilience <sup>25</sup>
2. Inequality, social exclusion and regional disparities <sup>26</sup>
3. The impact of technological development, including on pay and jobs <sup>27</sup>
4. The urgent need to reduce CO2 emissions, and for business skills, innovation and investment to accelerate transitions to Net Zero, and nature-rich societies <sup>28</sup>

In the next section, we will set out evidence for why purposeful businesses will be best placed to seize the business opportunities that will come from the need to tackle these challenges.

## Why business purpose matters

### Introduction

We explore in this section international evidence for how business purpose can support the success of businesses, including their financial success. We highlight a wide range of measures, which have been influential in the shift by businesses in recent years to purpose. We also explore the international evidence for how business purpose can produce wider benefits for society, and why, therefore, nurturing business purpose matters to government.

### Business Benefits

Business which finds profitable solutions to the problems of people and planet, internationally or

locally, and do not to profit from creating problems for either, and communicate the role that they are playing, have opportunities for significant competitive advantages over their peers. Business purpose can help to drive profitability in a range of related ways, including:

#### 1. Business Strategy

Business purpose is not a magic bullet for business performance in and of itself. However, when it is at the core of a business strategy and guides business decision-making at all levels it can help a business to identify and build on its strengths to create more value and to make the best possible choices <sup>29</sup>. 96% of companies show sustained performance improvement after a transformation when their purpose, strategy, and culture are consistently aligned. <sup>30</sup>

#### 2. Customers

Purpose can create new and more loyal customers, higher brand value, and identification of and access to new markets. This is especially important when 47% of consumers disappointed with a brand's stance on a social issue stop buying its products – and 17% will never return <sup>31</sup>. Two-thirds of consumers are willing to pay more for socially driven products, while the importance of “purpose” as a purchasing factor has risen 26% globally since 2010. <sup>32</sup>

With businesses and governments increasingly accounting for and driving purpose through their own supply chains, purposeful businesses are better qualified to compete for contracts.

#### 3. Resilience

Purpose can increase the ability of businesses to stay viable when times are tough. 73% of businesses say that a well-integrated purpose helps their company

23 Towards a Robust, Resilient Wellbeing Economy for Scotland: Report of the Advisory Group on Economic Recovery – gov.scot ([www.gov.scot](http://www.gov.scot))

24 Supporting documents – If not now, when? – Social Renewal Advisory Board report: January 2021 – gov.scot ([www.gov.scot](http://www.gov.scot))

25 Themes – RSE Post-Covid-19 Futures Commission: RSE Post-Covid-19 Futures Commission ([rsecovidcommission.org.uk](http://rsecovidcommission.org.uk))

26 Labour market inequality | Inequality: the IFS Deaton Review

27 Firms and inequality | Inequality: the IFS Deaton Review

28 Policy & Practice for Purposeful Business | The British Academy

29 bitc-globalgoals-report-embeddingpurposelessonsfrombusiness-march2022.pdf

30 epi-report-final.pdf ([enactingpurpose.org](http://enactingpurpose.org))

31 Corporate purpose: Shifting from why to how | McKinsey

32 Nielsen – Audience is Everything®

navigate disruption.<sup>33</sup> They are more likely to be able to identify changing circumstances at an early stage, draw strength from a unity of purpose and diversity of talent, adapt their business practices while maintaining internal and external trust, and call on wider connections and support networks. Businesses in which people trust are more durable in and bounce back faster from a crisis.

#### 4. Innovation

Mission-driven companies have 30% higher levels of innovation.<sup>34</sup> 89% of executives believe that a clear purpose is a good guide/inspiration to future innovation of products and services.<sup>35</sup> 53% of businesses prioritising purpose said they were successful with innovation and transformation efforts, versus only 19% of businesses which were not prioritising it.<sup>36</sup>

#### 5. Resource Efficiency

Going green is often the same as going lean for businesses. Improving energy and water efficiency, and tackling waste through sharing, leasing, and circular solutions, produces cost savings, lowers exposure to resource price volatility, and increases supply chain security.

#### 6. Talent

Purposeful activity in work is strongly linked with productivity and performance improvements.<sup>37</sup> Employees who report that their job has a “special meaning: this is not ‘just a job’” are 4 times more likely to give extra, 11 times more committed to staying with their organisations and are 14 times more likely to look forward to coming to work than employees at peer companies.<sup>38</sup> Mission-driven companies have 40% higher levels of employee retention.<sup>39</sup> Employees report a greater sense of well-being in purposeful businesses. Purpose can also help businesses attract

talent. A global talent trends survey in 2018 found that the highest-performing employees are three times more likely to work for a company with a strong sense of purpose. About two-thirds of millennials take a company's social and environmental commitments into account in deciding where to work.<sup>40</sup>

#### 7. Government Relations and Regulation

Purpose can strengthen relationships with governments, and articulating actions and being transparent about progress towards societal and environmental goals can build positive relationships with regulators. This can reduce regulatory risks and costs for businesses.

#### 8. Communities

Communities are more likely to rally behind a local business. Two-thirds of people (including 72% of millennials) in the UK said they were more committed to supporting small businesses in the pandemic than they were before it, and over half were spending more with them.<sup>41</sup> Research has found that people are even more likely to financially support a purposeful brand or business if the impact of their purchase is closer in proximity to where they live and shop.

Communities are more likely to accept and support operations and new developments.<sup>42</sup>

#### 9. Investment

For all of these reasons, private and public sector investors are increasingly looking to invest in purpose-led businesses. Meeting Environmental, Social and Governance criteria can materially lower capital costs for businesses.<sup>43</sup> Discussions on purpose can develop more participative and supportive investors who provide ‘patient capital’ over the long term. There is substantial evidence that a long-term focus on purpose pays off for businesses:

33 [How can purpose reveal a path through uncertainty? \(ey.com\)](https://ey.com)

34 [Purpose-driven companies | Deloitte Insights](#)

35 [The Business Case for Purpose – SPONSORED CONTENT FROM EY \(hbr.org\)](#)

36 [The business case for purpose \(ey.com\)](#)

37 [Embedding ESG and purpose in your organization | McKinsey](#)

38 [2017 UK's Best Workplaces \(greatplacetowork.co.uk\)](#)

39 [Purpose-driven companies | Deloitte Insights](#)

40 [Corporate purpose: Shifting from why to how | McKinsey](#)

41 <https://yougov.co.uk/topics/resources/articles-reports/2020/08/06/67-consumers-are-committed-supporting-small-business>

42 [Consumers are growing wary of 'purpose-washing' | Campaign US \(campaignlive.com\)](#)

43 [Corporate purpose: Shifting from why to how | McKinsey](#)

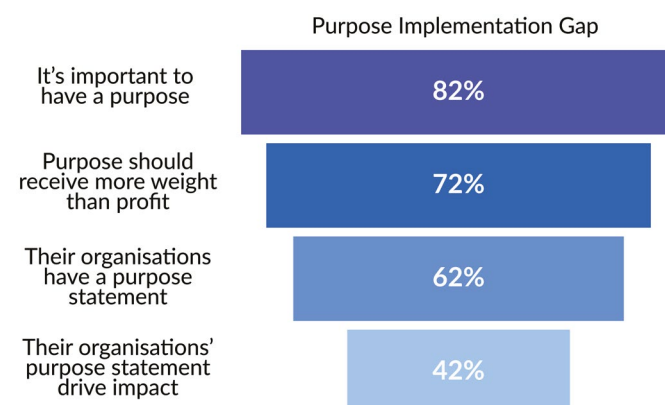
- Between 1926 and 1990 a group of companies guided by a vision beyond making money returned six times more to shareholders than explicitly profit-driven rivals.<sup>44</sup>
- Purpose-led companies outperformed by a factor of 10.5 the average performance of the largest 500 companies listed on US stock exchanges between 1996 and 2011.<sup>45</sup>
- For US companies with a long-term mindset average revenue was 47% higher and earnings growth was 36% higher than companies with a short-term focus from 2001 to 2015, market capitalisation grew faster, and they added nearly 12,000 more jobs.<sup>46</sup>
- The JUST Capital 100 – a list of the top US companies ranked highly on purpose and serving society – produced 56% higher total shareholder returns over five years.<sup>47</sup>
- In a study 66% of businesses which prioritise purpose were successfully expanding geographically compared to 48% of businesses which do not prioritise purpose, and they were more likely to have successfully launched new products (56% v 33%).<sup>48</sup>
- Over a three-year period, UK businesses with B Corps certification for their social and environmental performance grew twenty-eight times faster than the economy.<sup>49</sup>
- The growth rate of 'responsible' brands is nearly double that of conventional brands.<sup>50</sup>
- More than 2,000 academic studies have examined the impact of ESG investment propositions on equity returns, and 63% of these studies have found positive results (versus only 8% that were negative).<sup>51 52</sup>

Significantly, businesses with strong ESG records showed greater financial resilience during the pandemic, outperforming those with low records during the initial crisis and since then.<sup>53</sup>

The evidence of better *financial* performance by purpose-driven businesses is often based on data from publicly traded companies, but there is every reason to believe that the same factors would drive better financial performance for businesses of all structures and sizes.

It is important to acknowledge, however, that business purpose is not a panacea for businesses. Businesses pursuing purpose-led strategies may be challenged by activist investors who believe that they should instead focus on maximising short-term profitability and returns to shareholders, and even with greater resilience from their business model, purpose-led businesses may still fall victim to sudden and seismic disruptions in their markets.

There is also international evidence that some businesses do not effectively implement their purpose. A survey by McKinsey of 1,000 people from US businesses found agreement that:



Source: McKinsey Organisational Purpose Survey of 1,214 managers and frontline employees

44 Collins, J. & Porras, J., *Built to Last: Successful Habits of Visionary Companies*

45 Sisodia, R., Wolfe, D. & Sheth, J., *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*

46 [The case against corporate short termism | McKinsey](#)

47 Polman, P. & Winston, A., *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*

48 [The business case for purpose \(ey.com\)](#)

49 Polman, P. & Winston, A., *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*

50 [Thought Leadership Publications & Business Insights | BCG](#)

51 [2030 Purpose: Good business and a better future | Deloitte](#)

52 For evidence on the relation between corporate purpose and performance see Flammer, C. (2015), "Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach", *Management Science*, 61, 2549–68; Eccles, R., Ioannou, I. and Serafeim, G. (2014), "The Impact of Corporate Sustainability on Organizational Processes and Performance", *Management Science*, 2835–57; Edmans, A. (2011), "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices", *Journal of Financial Economics*, 101, 621–40; Edmans, A. (2020), *Grow the Pie: How Great Companies Deliver Both Purpose and Profit*, Cambridge University Press; Gartenberg, C., Pratt, A. and Serafeim, G. (2019), "Corporate Purpose and Financial Performance", *Organization Science*, 30, 1–18; Gartenberg, C. and Serafeim, G. (2020), "Corporate Purpose in Public and Private Firms", Working Paper; Khan, M., Serafeim, G. and Yoon, A. (2016), "Corporate Sustainability: First Evidence on Materiality", *Accounting Review*, 91, 1697–1724.

53 [Embedding ESG and purpose in your organization | McKinsey](#)



McKinsey suggest that this is because many companies' purpose statements are generic or do not emphasise the priorities of their employees. While they were the highest priorities for workers, contributing to society was the focus of only 21% of company purpose statements and creating meaningful work was the focus of only 11% of company purpose statements.<sup>54</sup>

There is also evidence that a significant share of consumers perceive a gap between the purposes stated by some businesses and their delivery of their commitments, and that consumers are growing wary of 'purpose-washing'.<sup>55</sup> These businesses risk a public backlash.

### Reasons to believe there will be growing benefits for Purposeful Businesses

We expect that the business benefits of purpose will continue to grow. Business-as-usual is no longer accepted as adequate for the challenges which face people and planet, and, these challenges are viewed as too large and cross-sectoral for governments or the social sector to tackle by themselves<sup>56</sup>. Society and government expect businesses to play a role in tackling them. Businesses which offer practical solutions and show leadership will be better positioned to improve their business performance and take advantage of the business's opportunities.

Businesses with a greater sense of purpose are forecast to achieve 10% higher growth and 9% higher total shareholder returns over the next 15 years due to their elevated performance.<sup>57</sup>

The UN Sustainable Development Goals (SDGs) are driving actions by and partnerships between governments, businesses, NGOs, third sector organisations, consumers and concerned citizens. Recent research showed that 72% of companies now mention the SDGs in their annual corporate or sustainability report.<sup>58</sup> Achieving the SDGs has been

calculated to need annual investment of \$5-7tr, with an estimated funding shortfall of \$2.4tr per annum at present. The private sector has the opportunity to bridge the gap and help deliver the SDGs.<sup>59</sup>

As the climate emergency becomes ever clearer and directly impacts more people, businesses which lead actions to mitigate the problem and offer solutions for the planet will be viewed more positively by customers, talent, investors, governments and all other stakeholders. This will be particularly true of younger generations, who will be especially affected by climate change and will make up a growing share of potential customers and employees.

During the UN Conference of the Parties in Glasgow (COP26), banks and asset managers, representing 40% of world financial assets committed \$130tn of assets to help industries and economies reach net zero carbon emissions by 2050 within science-based guidelines.<sup>60</sup>

Businesses which have made their supply chains green and more resource efficient will be more competitive as the prices of non-renewable resources are increased, and governments deliver on their international and national commitments to reach Net Zero emissions. As mandatory climate disclosures for companies and financial institutions become law, and the financial sector continues to shift to ESG investment, they will be able to attract an increasing share of investment to fund their business growth.

On the reverse side, the risks for businesses that do not become more purposeful will increase further and will continue to be amplified by digital technologies and social media. The negative results of business actions will be more closely tracked and widely communicated, with a potentially more rapid and damaging influence on customers' responses. As technology-based business models seek to disrupt markets in more sectors of the economy, businesses – from smaller firms in communities to multinationals –

54 Corporate purpose: Shifting from why to how | McKinsey

55 Consumers are growing wary of 'purpose-washing' | Campaign US ([campaignlive.com](https://campaignlive.com))

56 Advisory\_Panel\_Report\_-\_Mission-led\_Business.pdf ([publishing.service.gov.uk](https://publishing.service.gov.uk))

57 epi-report-final.pdf ([enactingpurpose.org](https://enactingpurpose.org))

58 SDG Challenge 2019: PwC

59 Mobilising-Private-Sector-Capital-in-Support-of-the-SDGs-GEFI\_RJ-FLeming-Report.pdf ([globalethicalfinance.org](https://globalethicalfinance.org))

60 Glasgow Financial Alliance for Net Zero ([gfanzero.com](https://gfanzero.com))

which do not have a purpose-led strategy, identity and loyalty are more likely to lose their sales and skills. <sup>61</sup>

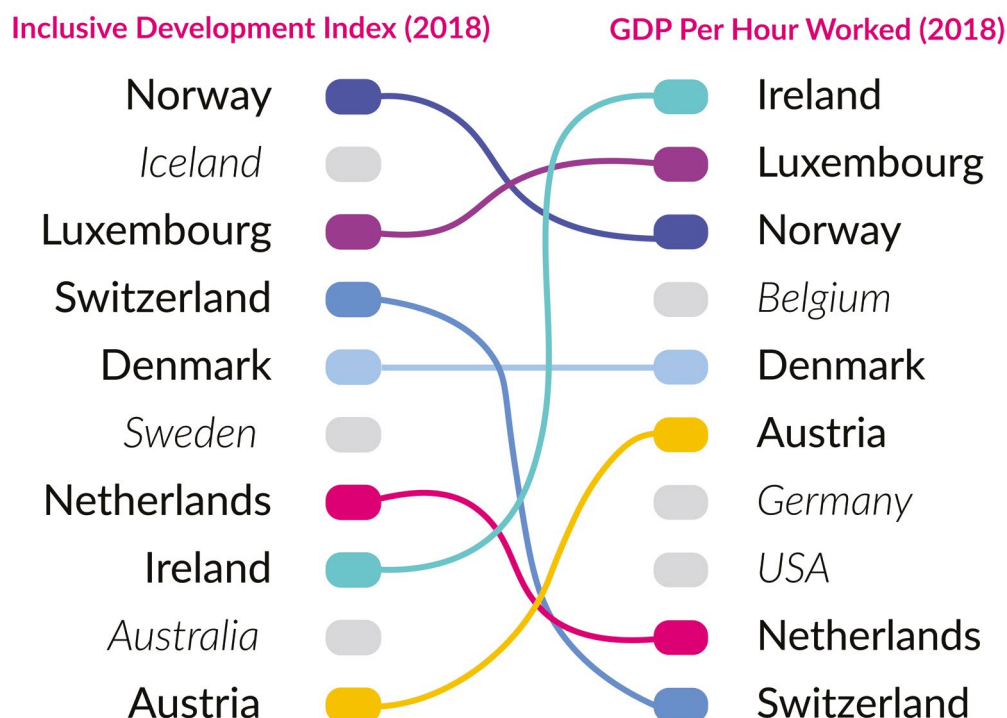
## Evidence of Wider Benefits

We have highlighted the many ways in which purpose-led business benefits society and the environment. There is a wealth of evidence which supports this conclusion. For example, the JUST Capital 100 group of US companies pay their workers 18% more, use 123% more green energy, and are six times more likely to have diversity targets than other companies.

A broad range of benefits for society from enabling and encouraging purpose in businesses in an economy has been identified. These include: a more robust, diversified and resilient economy; greater meaningful work, well-being, social equity and inclusion, and quality of life; beneficial innovation and the unlocking of company resources and assets for societal goals; a stronger sense of community; and the release of government resources for other priorities. <sup>62</sup>

There is evidence of a positive relationship between wellbeing and higher rates of productivity at an economy level. The World Economic Forum's Inclusive Development Index measures performance across three pillars: growth and development; inclusion; and intergenerational equity (sustainable stewardship of natural and financial resources). Seven of the countries in the top ten in 2018 <sup>63</sup> were also among the top ten countries in the OECD for productivity. <sup>64</sup>

Of these seven countries, six have relatively coordinated relationships in the areas of industrial relations; vocational training and education; corporate governance, including finance; inter-firm relationships and employee relationships, while Ireland is a liberal market economy. <sup>65</sup> This suggests that economies with a larger share of purposeful businesses are more likely to have higher rates of productivity as well as be more inclusive and sustainable.



<sup>61</sup> 2030 Purpose: Good business and a better future | Deloitte

<sup>62</sup> United Way Social Purpose Institute, *Promoting Purpose in Canadian Public Policy: Options for Governments in Canada to Accelerate Social Purpose in Businesses*

<sup>63</sup> The Inclusive Development Index 2018 | World Economic Forum (weforum.org)

<sup>64</sup> Volume , Issue | OECD Compendium of Productivity Indicators | OECD iLibrary (oecd-ilibrary.org)

<sup>65</sup> vofcintro.pdf (harvard.edu)

## Scottish Government's Purpose and National Strategy for Economic Transformation

Businesses that align economic, social and environmental purpose complement the Scottish Government's National Performance Framework (NPF) which sets out the government's overarching Purpose and aims to get everyone in Scotland – including national and local government, businesses, voluntary organisations and citizens – to work together on national outcomes. The NPF is the Scottish Government's way to localise actions to achieve the SDGs.



Source: National Performance Framework, The Scottish Government <sup>66</sup>



Some of the purposeful businesses we spoke with who are familiar with the NPF said that it has helped them to design and measure the Key Performance Indicators (KPIs) for their purpose. However, generally, we found limited business awareness of the NPF and of how Scotland as a whole currently performs. The NPF will be refreshed in 2023 and we recommend greater engagement with businesses and other stakeholders to take advantage of the opportunity to embed the NPF in more businesses' KPIs and to work together on purpose.

We have developed our report in connection with the Scottish Government's National Strategy for Economic Transformation (NSET) 2022, which sets out how its plans to build a wellbeing economy. The NSET presents evidence of strengths and progress in Scotland's economic performance, but it is also frank about challenges which need to be addressed if Scotland aims to deliver economic growth that significantly outperforms the last decade.

Key economic challenges include lower levels than in many other developed economies of productivity, business investment, business R&D, innovation, business growth, exports, entrepreneurship <sup>68</sup> and investment in people. <sup>69</sup> Bound with them are key socio-economic challenges including low pay, weak pay growth, in-work poverty <sup>70</sup>, gender, disability and ethnicity pay gaps, rising underemployment and overemployment, <sup>71</sup> economic inactivity, regional inequalities, and a far lower healthy life expectancy of people in deprived areas. <sup>72</sup>

Purpose-driven businesses know the business and human impact of these challenges for Scotland's economy, and the leadership role businesses should play in tackling them. Businesses will not flourish in communities and a world in which people are not thriving.

## Wider Impacts – Child Poverty

The number of people in poverty in a household where someone is working has been rising in the past 15 years. <sup>67</sup> In Scotland, 160,000 children in relative poverty after housing costs (over two-thirds of the children in relative poverty) live in working households. The Joseph Rowntree Foundation estimated (prior to the escalation of the living costs crisis due to the war in Ukraine) that nearly a quarter of children in Scotland could be in poverty in 2023-24.

Despite the extent of the problem, many employers in low-paying sectors have limited awareness of their employees' financial situations, who are also unwilling to raise the issues. Many complex factors combine to cause poverty and in-work poverty, with sectoral challenges. Employers have to be part of the solution in areas such as on pay, contracts and conditions, skills development and progression, flexible working, health

and financial well-being. There is a strong business case for businesses to lead key actions – staff productivity, recruitment and retention, reputational benefits, and a more prosperous future society. <sup>73</sup>

Business purpose creates the focus and trust for businesses and employees to engage with each other on in-work poverty. They can shape, with other stakeholders, a business strategy which links actions to improve performance with lifting people out of poverty, with plans to adopt a range of fair work practices and tracking and communication of progress.

Without this business purpose, more children will grow up in poverty, businesses remain trapped in a low-productivity equilibrium, trust in business declines, the costs of poverty-related problems to society rise, and government interventions become more necessary.

<sup>67</sup> Influencing employers so more people break free from poverty through work | JRF

<sup>68</sup> Scotland National Strategy for Economic Transformation: evidence paper – gov.scot ([www.gov.scot](https://www.gov.scot))

<sup>69</sup> Poverty-Inequality-Commission-Good-jobs-in-Scotland-report.pdf ([povertyinequality.scot](https://povertyinequality.scot))

<sup>70</sup> What+do+we+know+about+in-work+poverty+in+Scotland+2019+interim+findings.pdf

<sup>71</sup> Poverty-Inequality-Commission-Good-jobs-in-Scotland-report.pdf ([povertyinequality.scot](https://povertyinequality.scot))

<sup>72</sup> Poverty-Inequality-Commission-Good-jobs-in-Scotland-report.pdf ([povertyinequality.scot](https://povertyinequality.scot))

<sup>73</sup> Influencing employers so more people break free from poverty through work | JRF

The NSET sets out three ambitions and five programmes of action.

**Figure 1: Our Vision, Ambition and Programmes of Action for Scotland's Economy by 2032**



Source: National Strategy for Economic Transformation, Scottish Government <sup>74</sup>

This report identifies how purposeful businesses can contribute to these programmes. Here we particularly welcome the focus on a culture of delivery. Purposeful organisations of all kinds – private, public and voluntary sector – are distinguished by their cultures of delivery and accountability, are highly-networked and excel at working with partners. Businesses are seen by many people as particularly likely to have strengths in the co-ordination of cross-institutional efforts to solve societal problems and get positive results. <sup>75</sup> We believe that nurturing purpose in businesses would be a nurturing of a culture of delivery.

## Regional and Local Growth

We also highlight the role of regional and local economic strategies in nurturing purpose and unlocking economic opportunity for large and (particularly) SME businesses and connecting with communities. This includes city region deals and regional growth deals, Scotland's Regional Economic Partnerships, and place-based interventions, such as Living Wage Places.

<sup>74</sup> 1. Our Future Economy – Scotland's National Strategy for Economic Transformation – gov.scot (www.gov.scot)

<sup>75</sup> 2022 Edelman Trust Barometer | Edelman (edelman.com)

## UK Government's 'Defining Mission' and Plan for Growth

Company law and important areas of business taxation and regulation are the responsibility of the UK Government, and we make recommendations to it on business purpose.

We believe that adopting them will help the UK Government to 'level up' growth and well-being in all parts of the UK – which the Prime Minister says is the UK Government's defining mission <sup>76</sup> – and deliver on its economic priorities, such as increasing capital investment, the skills levels of people in work, and business investment in R&D and innovation <sup>77</sup>, attracting and retaining innovators, stimulating innovation and technologies to tackle social and environmental missions <sup>78</sup>, and expanding trading opportunities for UK businesses. <sup>79</sup>

Purposeful businesses have an essential role in all these elements of levelling up economic success across the UK. We will present evidence of how purpose can raise pay, employment and productivity; increase investment and innovation in business; attract, train and mobilise talent; improve the well-being of employees and customers; and bring the capabilities of businesses to bear on the key challenges facing people in the UK and around the world.

We ask the UK Government to unlock the full potential of purposeful businesses in Scotland, and across the UK, to drive our shared ambition of levelling up the UK's economy and society.

## UN Sustainable Development Goals

The UN SDGs provide a multilaterally-agreed framework in which UK and Scottish Government policies and international business practices are increasingly being positioned. All 193 UN member states have adopted the 17 UN SDGs, which are intended to be achieved by 2030. All countries are required to produce at least one review in which

they assess and present progress they have made towards the SDGs. The UN Global Compact is the UN's network which promotes the integration of ten principles across human rights, labour law, the environment and anti-corruption into the activities of businesses of all sizes, sectors and locations. <sup>80</sup> As governments implement actions to achieve the UN SDGs and the Glasgow Climate Pact, they will look to work with purposeful businesses. They are, therefore, key frameworks for businesses that seek to profit from solving the problems of people and planet.

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76 [Levelling Up the United Kingdom White Paper \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)  
 77 [Chancellor Rishi Sunak's Mais Lecture 2022 – GOV.UK \(www.gov.uk\)](https://www.gov.uk)  
 78 [UK innovation strategy \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)  
 79 [Build Back Better: our plan for growth \(HTML\) – GOV.UK \(www.gov.uk\)](https://www.gov.uk)  
 80 [The Ten Principles | UN Global Compact](#)









# VIEWS OF PEOPLE AND BUSINESS IN SCOTLAND

## What do people expect from businesses?

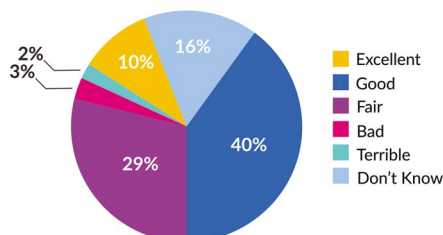
### Introduction

The views of people in Scotland and around the world are critical to this conversation around business purpose. We have asked people in Scotland for their views through our own opinion poll of a representative sample of 1002 adults. Furthermore, we asked young people from Scotland and other countries for their views and ideas on the future of business in two workshops with the Edinburgh Futures Institute. We also additionally present here evidence from the latest edition of the long-running Edelman Trust Barometer of international public opinion and from the CBI's reports on its Business Reputation Tracker of UK public opinion.

### Scottish Public Opinion

We commissioned an opinion poll of 1002 adults to people in Scotland for their views. We found that 50% of people think the reputation of businesses in Scotland is excellent or good.

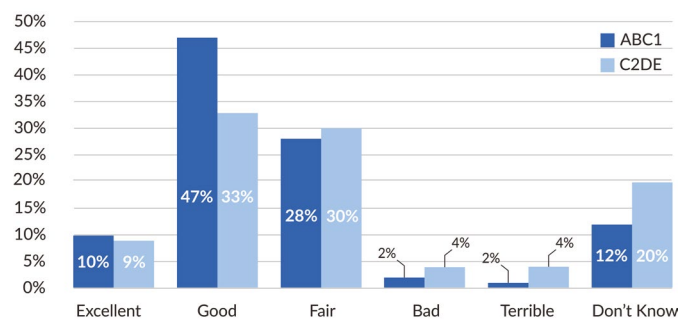
#### Overall reputation of business based in Scotland



Source: Omnibus survey. 24th – 28th February 2022. Survey of 1002 adults.

However, there is a gap in the reputation of businesses among people in different occupations. 57% of people in higher-skilled jobs <sup>81</sup> describe the reputation of businesses in Scotland as excellent or good, compared to 43% of people in lower-skilled occupations. <sup>82</sup>

#### Overall reputation of business based in Scotland



Source: Omnibus survey. 24th – 28th February 2022. Survey of 1002 adults.

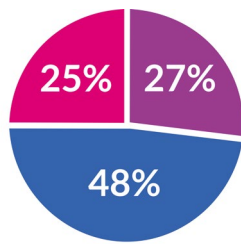
While business in Scotland generally has a positive reputation among people in Scotland, there is evidence that they want businesses to have a more purposeful role in their society.

<sup>81</sup> As defined by ABC1 social grade definitions i.e. higher managerial, administrative or professional; intermediate managerial, administrative or professional; and supervisory or clerical, junior managerial, administrative or professional

<sup>82</sup> As defined by C2DE social grade definitions i.e. skilled manual workers; semi and unskilled manual workers; and state pensioners or widows (no other earner), casual or lowest grade workers.

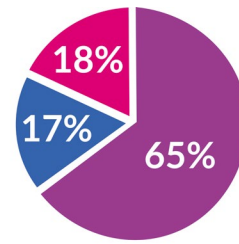


### Role businesses *currently* have in society in Scotland



- To find profitable solutions to the problems of people and the planet
- To maximise the returns for shareholders
- Neither of these

### Role businesses *should* have in society in Scotland

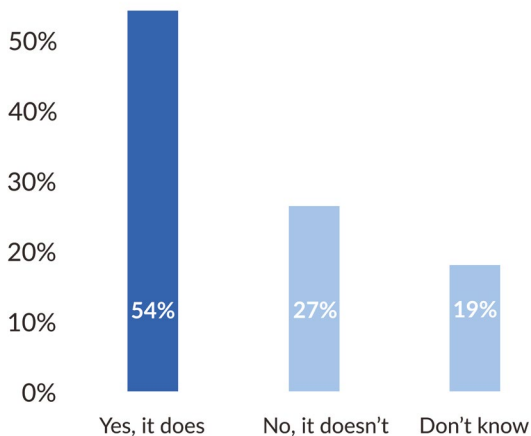


- To find profitable solutions to the problems of people and the planet
- To maximise the returns for shareholders
- Neither of these

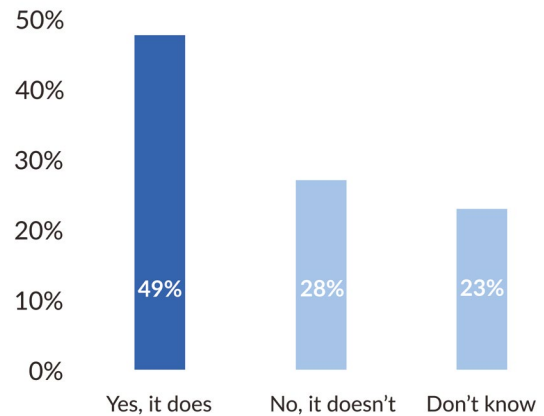
Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.

More people in Scotland say that businesses' purpose, values and beliefs influence whether they choose to buy from or support, work for, invest in, and choose to stop buying from or supporting a business, than say that they do not. This gives purposeful businesses a competitive advantage. As shown later this is also the case internationally and across the UK.

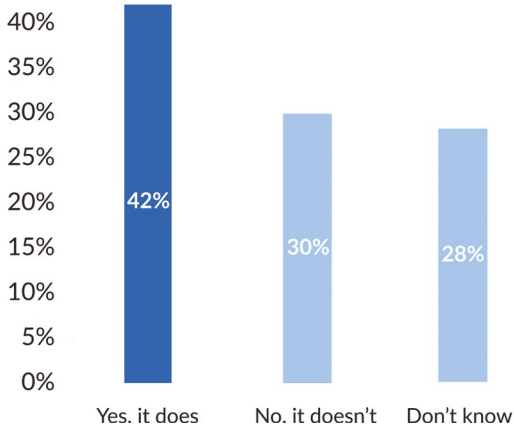
### Choose to buy from or support a business



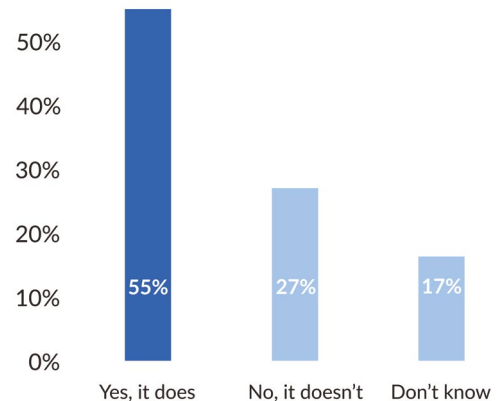
### Choose to work for a business



### Invest in a business

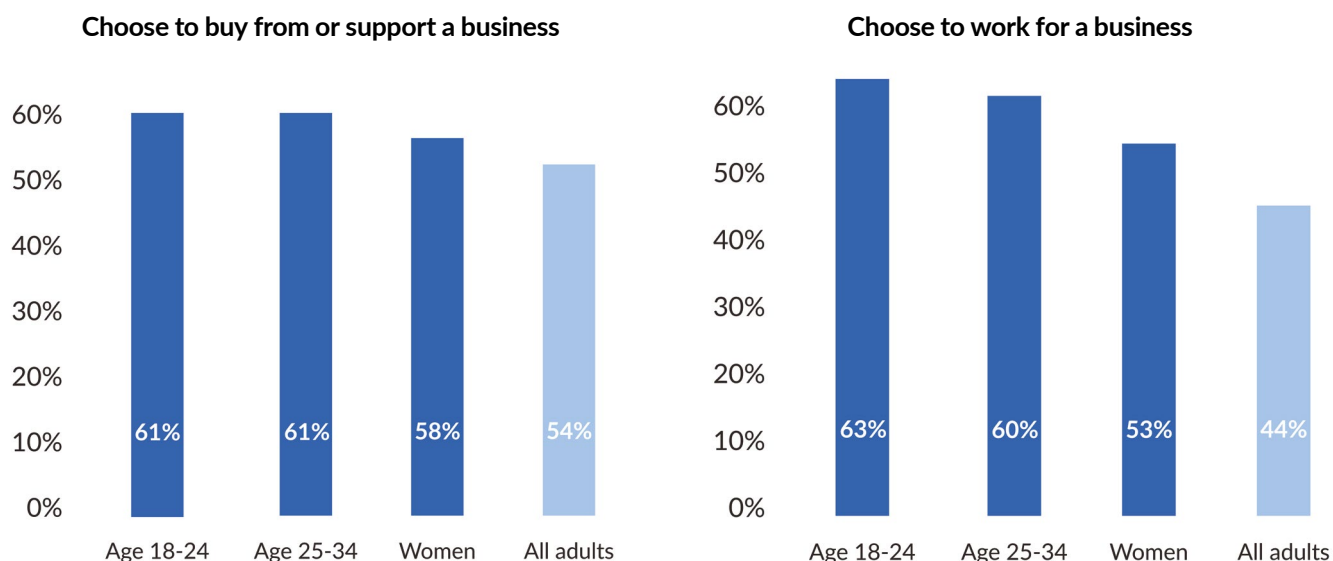


### Choose to stop buying from or supporting a business



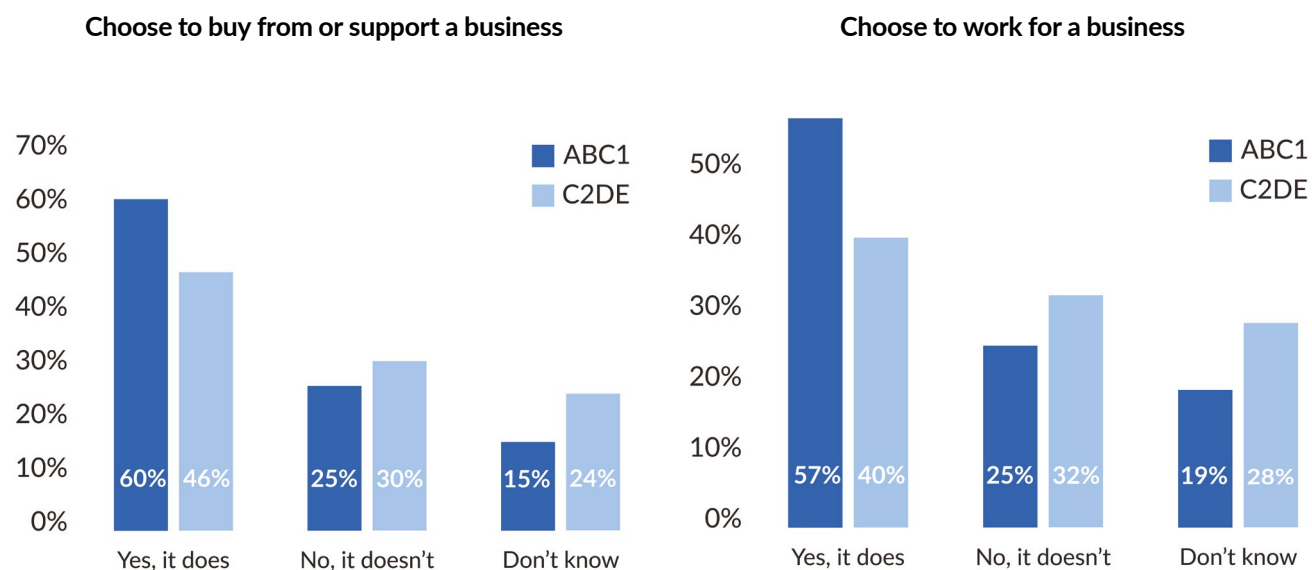
Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.

For young people and for women, the influence is even greater.



Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.

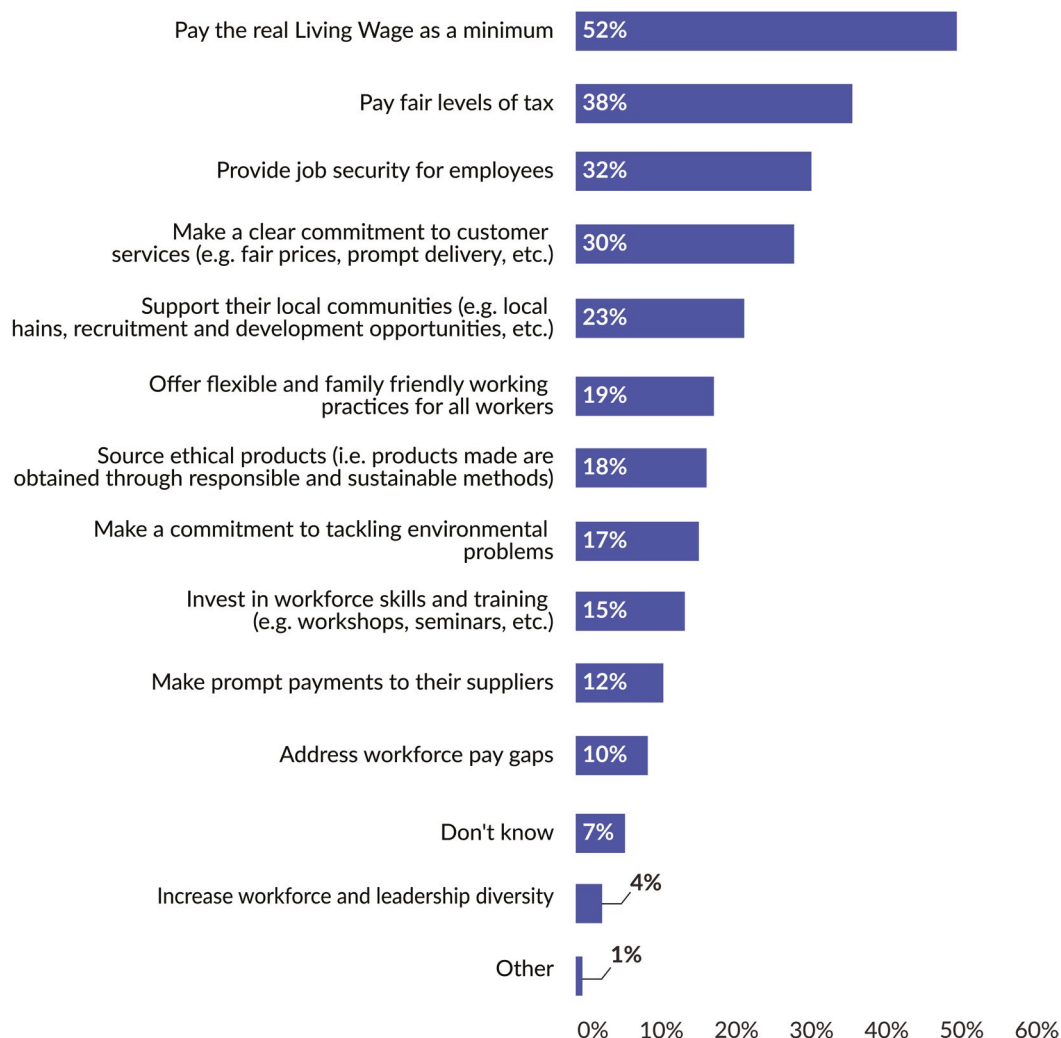
There is again a difference between people in higher- and lower-skilled jobs. This may reflect the more limited consumer and job options and experiences of people in lower-skilled jobs.



Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.

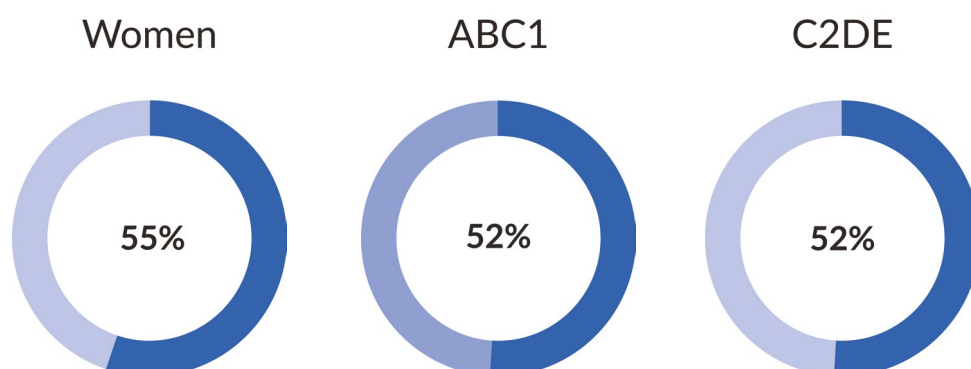
We then asked people about the three most important things for a business to do to secure public confidence and trust.

### Public priorities for businesses to secure their confidence and trust



Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.

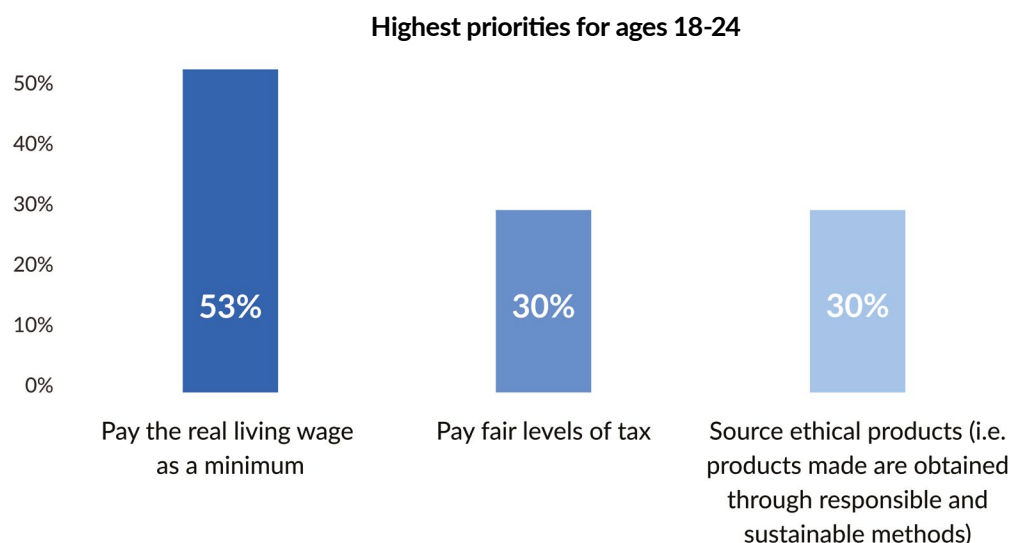
Paying the real living wage as a minimum is the highest priority for women (55%) and men (49%), all ages and higher- and lower-skilled occupations. It is especially important for women.



Source: Omnibus survey, 24th – 28th February 2022. Survey of 1002 adults.



For younger people (18-24), sourcing ethical products is the joint second highest priority.



Source: Omnibus survey. 24th – 28th February 2022. Survey of 1002 adults.

Our workshops with young people with the Edinburgh Futures Institute complemented the findings from our opinion poll on the views of young people. We heard that they want businesses to lead actions to tackle climate change and reduce waste, and reduce inequality, and want investors and government to hold them accountable and reward them for doing it.

Young people believe that businesses should be dynamic, collaborative, diverse and inclusive. They want to work in roles which offer opportunities for personal growth, empathy, external volunteering and a chance to create and leave a positive legacy. Businesses that offer these roles will attract and retain talent – those that do not will struggle to meet their talent needs.

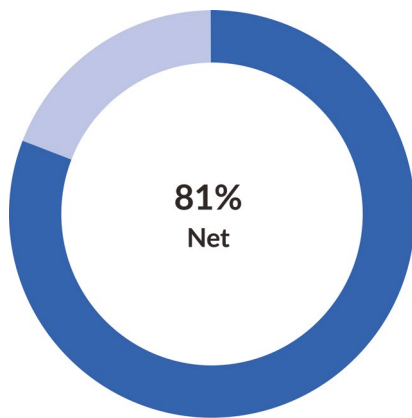
## International Public Opinion

The Edelman Trust Barometer 2022 of over 36,000 people in 28 countries shows that people want more, rather than less, business leadership and engagement on societal issues.



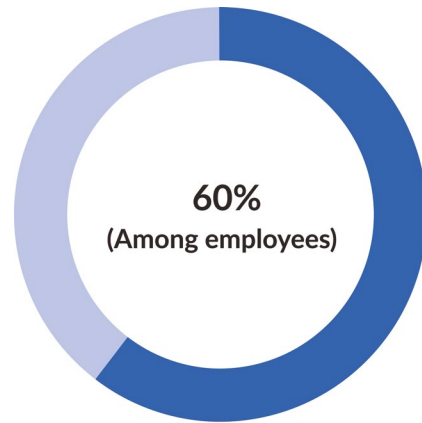
Source: Edelman Trust Barometer 2022. Survey of people in 27 countries.<sup>83</sup>

People now see societal leadership as a core function of business and business leadership.



Survey of people in 27 countries

CEOs should be personally visible when discussing public policy with external stakeholders or work their company has done to benefit society



Survey of people in 25 countries

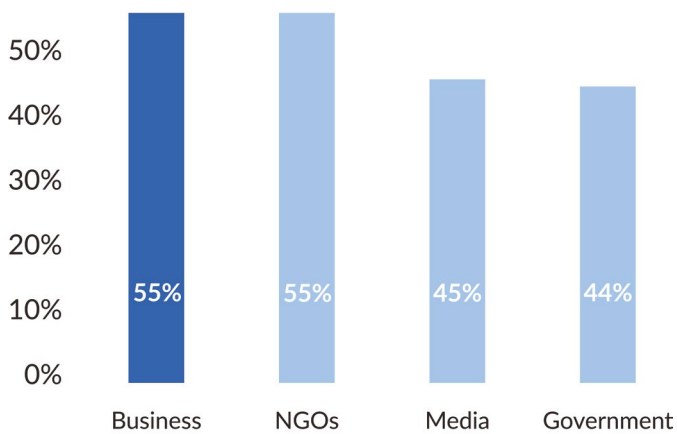
When considering a job, I expect the CEO to speak publicly about controversial social and political issues that I care about

Source: Edelman Trust Barometer 2022.<sup>84</sup>

Edelman found that people believe that solving societal problems is a strength of business.

#### Take a leadership role

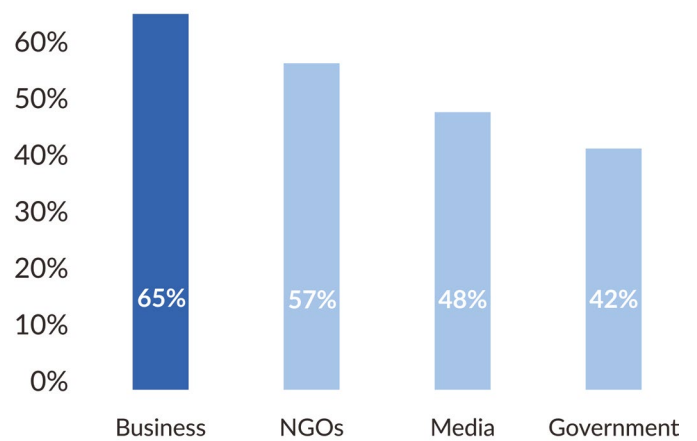
*Coordinate cross-institutional efforts to solve societal problems*



Source: Edelman Trust Barometer 2022. Survey of people in 24 countries.

#### Get results

*Successfully execute plans and strategies that yield results*

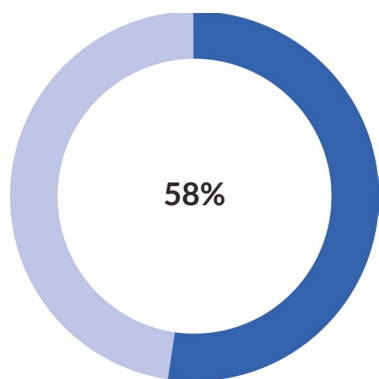


Source: Edelman Trust Barometer 2022. Survey of people in 27 countries.<sup>85</sup>

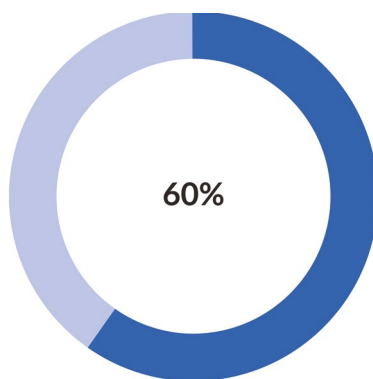
As we have previously set out in the 'Why business purpose matters' section, Edelman found that peoples' values influence decisions about businesses to buy from, work for and invest in.

84 2022 Edelman Trust Barometer | Edelman

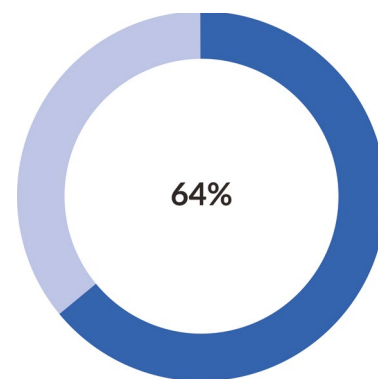
85 2022 Edelman Trust Barometer | Edelman



Will buy or advocate for brands based on their beliefs and values



Will choose a place to work based on their beliefs and values



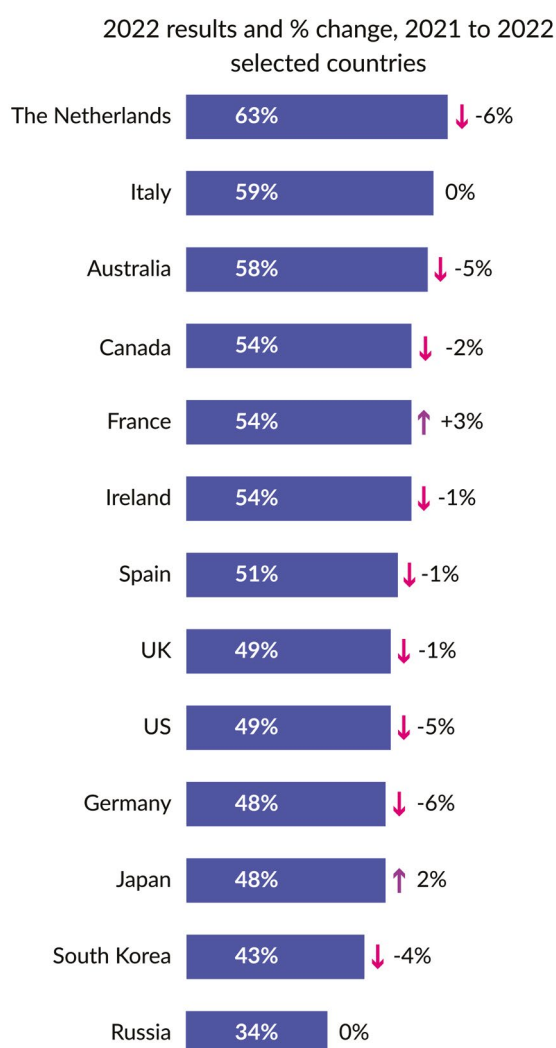
Will invest based on their beliefs and values

Source: Edelman Trust Barometer 2022. Survey of people in 27 countries. <sup>86</sup>.

## UK Public Opinion

Unfortunately in Edelman's most recent survey, UK business fell into distrust among people in the UK – 51% distrust v. 49% trust. In the US and Germany business also fell into distrust.

## Trust in Business

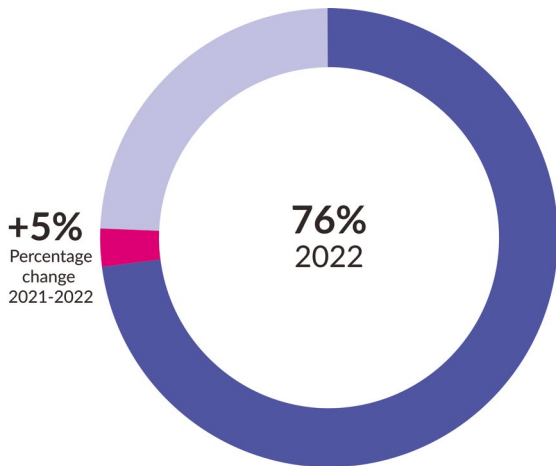


Source: Edelman Trust Barometer 2022. Survey of people in 27 countries.



In the UK, however, the Edelman Trust Barometer found that public trust in business is still higher than trust in NGOs, media and government. Furthermore, people's trust in their own employer is significantly higher than trust in business in general and increased last year.

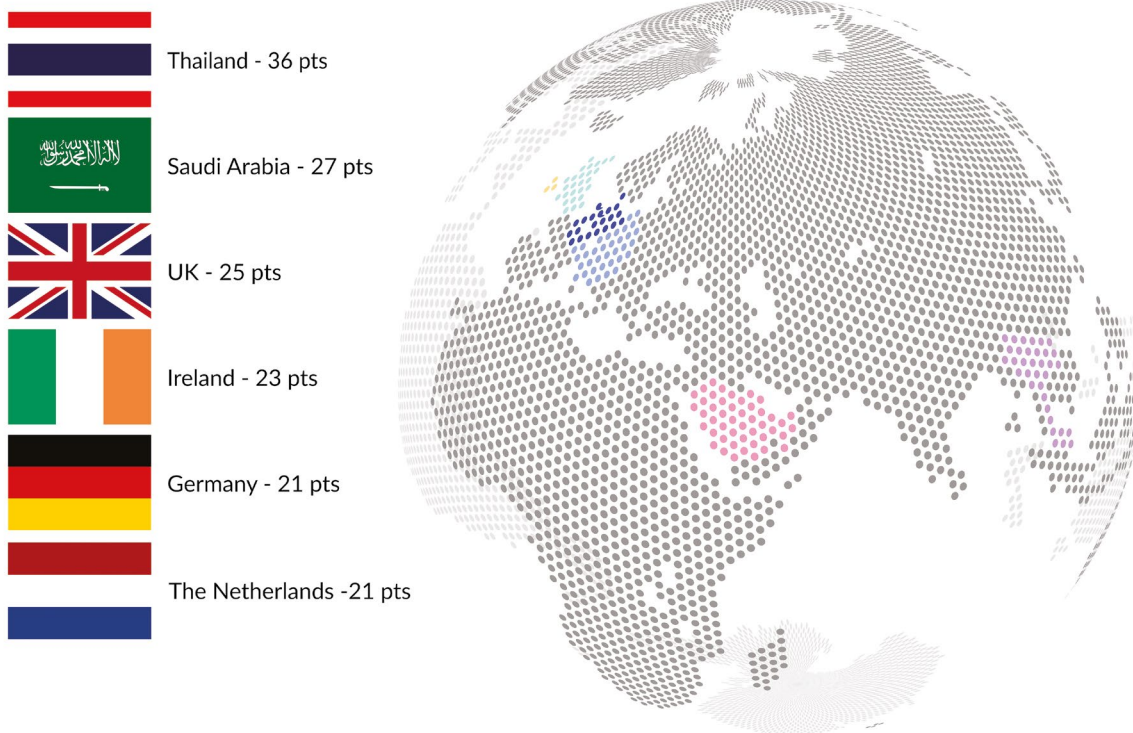
### Trust in my employer in the UK



Source: Edelman Trust Barometer 2022.<sup>87</sup>

Why has trust in institutions, including business, declined to these lower levels in the UK? In democratic developed countries trust in institutions is low and there is a lack of economic optimism. The UK is one of the countries with the greatest income-based trust inequality.

### Greatest trust gap between high and low income



Source: Edelman Trust Barometer 2022. Survey of people in 22 countries.<sup>88</sup>

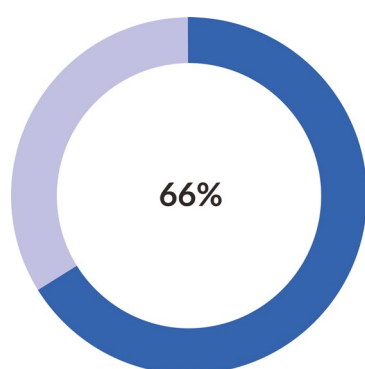
<sup>87</sup> 2022 Edelman Trust Barometer | Edelman

<sup>88</sup> 2022 Edelman Trust Barometer | Edelman

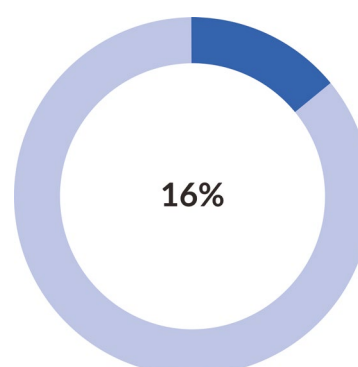
This may suggest that raising earnings for low paid workers would increase trust.

The CBI has found that two-thirds of people in the UK said that they are less likely to trust a company if their actions do not match their stated purpose and values. People are more likely to apply for a job (56%) and buy products or services (51%) from businesses with a clear purpose beyond profit. People expect businesses to be engaged on issues in their society. Tackling climate change is the issue which people most often highlighted (41%) when asked for three issues in which they want business to take a more active role in helping to address.

**Less likely to trust a company if their actions do not match their stated purpose and values**

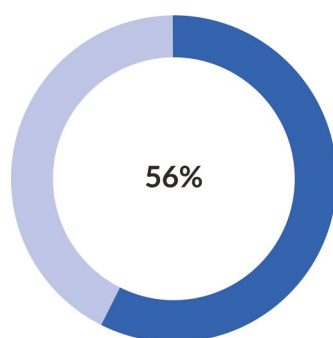


**Businesses should NEVER speak out on social issues**

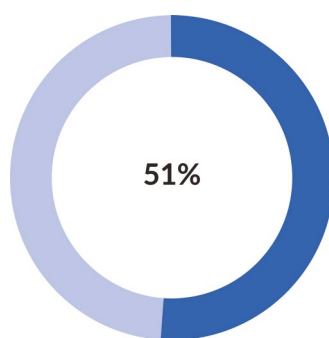


Source: CBI Business Reputation Tracker. January 2020. Survey of 2000 adults.<sup>89</sup>

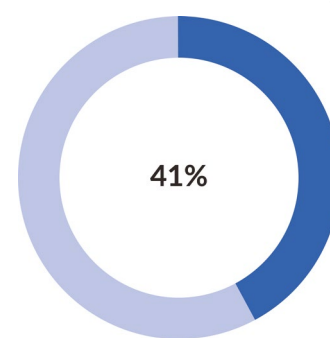
**More likely to apply for a job**



**More likely to buy products or services**



**Business should take a more active role on climate change**



Source: CBI Business Reputation Tracker. January 2020. Survey of 2000 adults.<sup>90</sup>

However, this message was more mixed the last time the CBI asked people in the UK. A third of people said that businesses should take more of a role in tackling social and environmental issues, a third said that they should not and a third were undecided. The CBI say that this result is surprising and does not align with its previous research. It believes that the timing of the research as the second COVID-19 pandemic lockdown started may have been a factor.<sup>90</sup>

In this section we have presented findings on what people in Scotland, the UK and around the world expect from businesses in society. This evidence points to ways in which businesses can build trust among people and to the growing market demand that exists for purposeful business. We now turn to what businesses in Scotland have told us about business purpose.

<sup>89</sup> Everyone's Business Reputation Tracker 2020 | CBI

<sup>90</sup> Everyone's Business Reputation Tracker 2020 | CBI

## What do Scottish businesses think about purpose?

### Introduction

Business has recognised and responded to public concerns. The CBI has been tracking public attitudes towards business in the 'Everyone's Business Tracker'.<sup>91</sup> The IoD supports the Better Business Act campaign to change UK law to ensure that every company aligns their interests with those of wider society and the environment.<sup>92</sup> The FSB and The Good Business Foundation have adapted the Good Business Charter to make it accessible for small firms.<sup>93</sup> B Lab UK has collaborated with the Scottish Government to launch the 'Scotland CAN B' initiative to build a nationwide culture of using business as a force for good – the first nationwide initiative of its kind<sup>94</sup>. Edinburgh Chambers of Commerce, Scotland CAN B, The City of Edinburgh Council and Edinburgh Napier University Business School have launched the 'Everyone's Edinburgh' programme for businesses.<sup>95</sup> Internationally, for example, the US Business Roundtable has redefined its Principles of Corporate Governance to promote "An Economy That Serves All Americans".<sup>96</sup>

We welcome these actions and others by businesses and their representative organisations, and the other business purpose initiatives by businesses that this report highlights.

We have asked businesses in Scotland for their views. We have done so through two of the Fraser of Allander's quarterly Scottish Business Monitor surveys (with 475 and 366 responses respectively) and our own Call for Evidence to businesses (with 127 responses). We held two workshops open to all businesses and a discussion dinner in which businesses discussed what is needed to drive business purpose in Scotland alongside stakeholders. Just over 100 businesses of different sizes and sectors participated

in these meetings. We have also spoken individually with a wide range of businesses and business representative organisations.

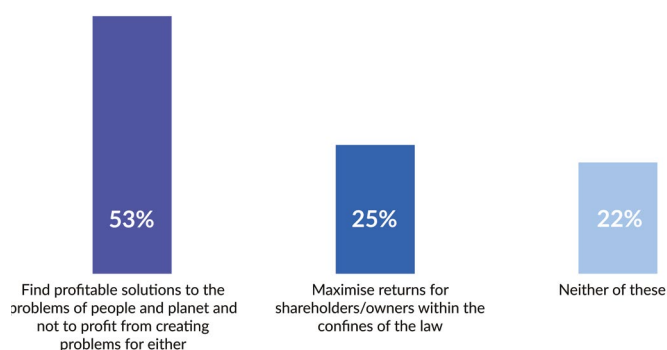
### Business Opinion

In our surveys, we asked businesses in Scotland about the role that they play in society.<sup>97</sup>

More than half of businesses think that the purpose of business is to find profitable solutions to the problems of people and the planet and not to profit from creating problems for either.

This compares with a quarter who say that it is to maximise returns for shareholders/owners within the confines of the law and just under a quarter who do not agree with either option.

### Role of Business in Society - Overall



Source: Scottish Business Monitor, 2021 Q3. Survey of 475 businesses.<sup>98</sup>

This suggests that businesses and people in Scotland have different views about the role that businesses *currently* play in society. As previously set out, in our public opinion poll we found that 48% of individuals surveyed in Scotland said that maximising the returns for shareholders/owners best reflects the role that businesses currently have in society, while 27% replied that it is finding profitable solutions to the problems of people and planet. In contrast, business and the public

<sup>91</sup> Everyone's business: Public attitudes report | CBI

<sup>92</sup> IoD: 6 in 10 firms believe they should not exist solely to make money | Institute of Directors | IoD

<sup>93</sup> The Good Business Charter | FSB, The Federation of Small Businesses

<sup>94</sup> Scotland CAN B – Home

<sup>95</sup> Business for Good – Everyone's Edinburgh (everyonesedinburgh.org)

<sup>96</sup> Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' | Business Roundtable

<sup>97</sup> Scottish Business Monitor, 2021 Q3 | FAI (fraserofallander.org)

<sup>98</sup> Scottish Business Monitor, 2021 Q3 | FAI (fraserofallander.org) 'Which ONE, if either, of the following statements, do you think BEST reflects the role businesses have in society?

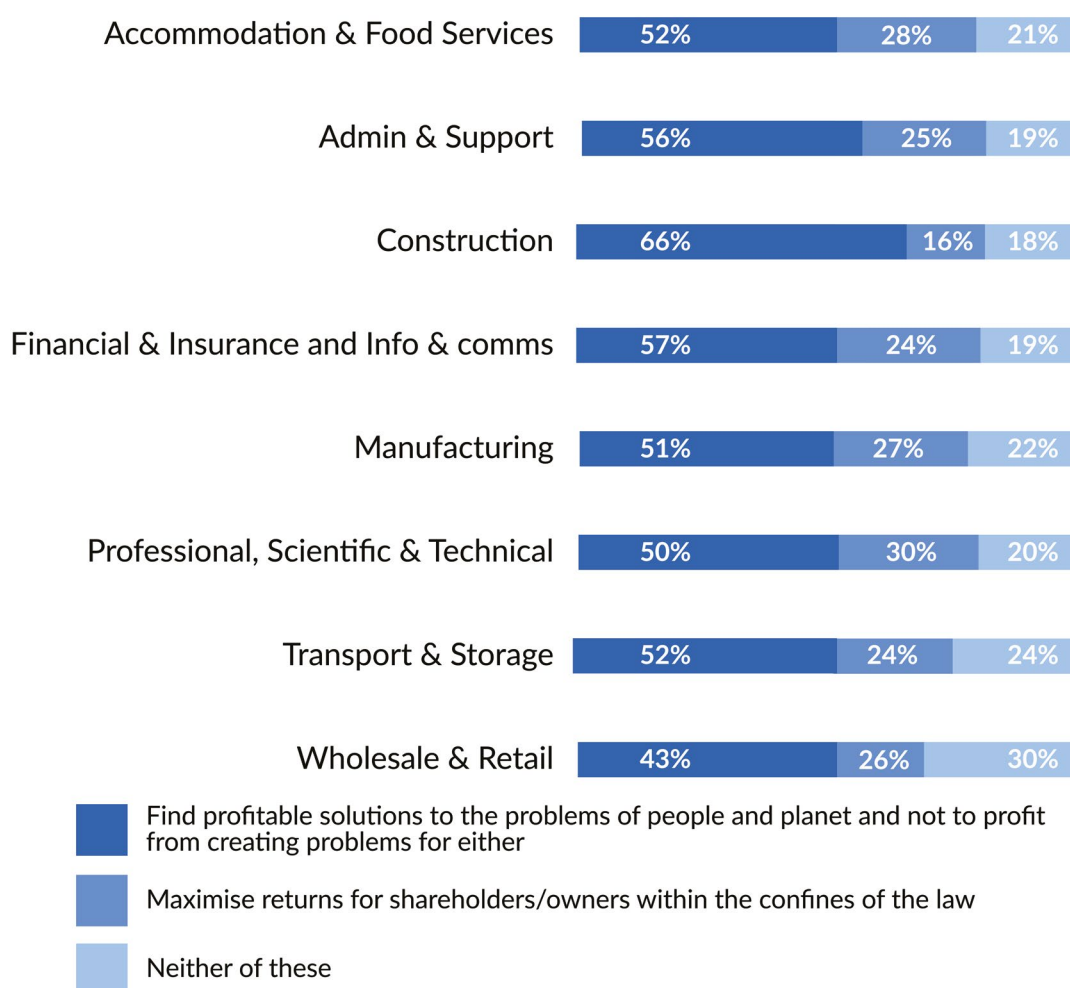
agree on the role that businesses *should* have in society, as 65% of people in Scotland answered that it *should* be to find profitable solutions to the problems of people and planet. Together these results points to the need for businesses in Scotland to make more progress with actions and communications on their role in society.

Most businesses in all sectors of the economy said that the role of business is to find profitable solutions to the problems of people and the planet and not to profit from creating problems for either. Two-thirds of businesses in the construction sector agreed as did a majority of businesses in the Accommodation & Food Services; Financial & Insurance and Info & Comms;

Manufacturing; Professional, Scientific & Technical; and Transport and Storage industries.

Only in the Wholesale and Retail sector did fewer than half of the firms say that the role of business is to find profitable solutions to the problems of people and the planet, although it was clearly the most popular option. The more mixed opinion in this industry was due to a higher share (30%) who agreed with neither option. The share who opted for maximising the returns for shareholders/owners within the confines of the law (26%) was slightly lower than the average for all industries (27%). The timing of the survey during the COVID-19 pandemic and the sharp economic toll on the industry from shutdowns, restrictions and shift to online, as well as the many smaller businesses in this industry, may partly explain this finding.

#### Role of business in society – by sector



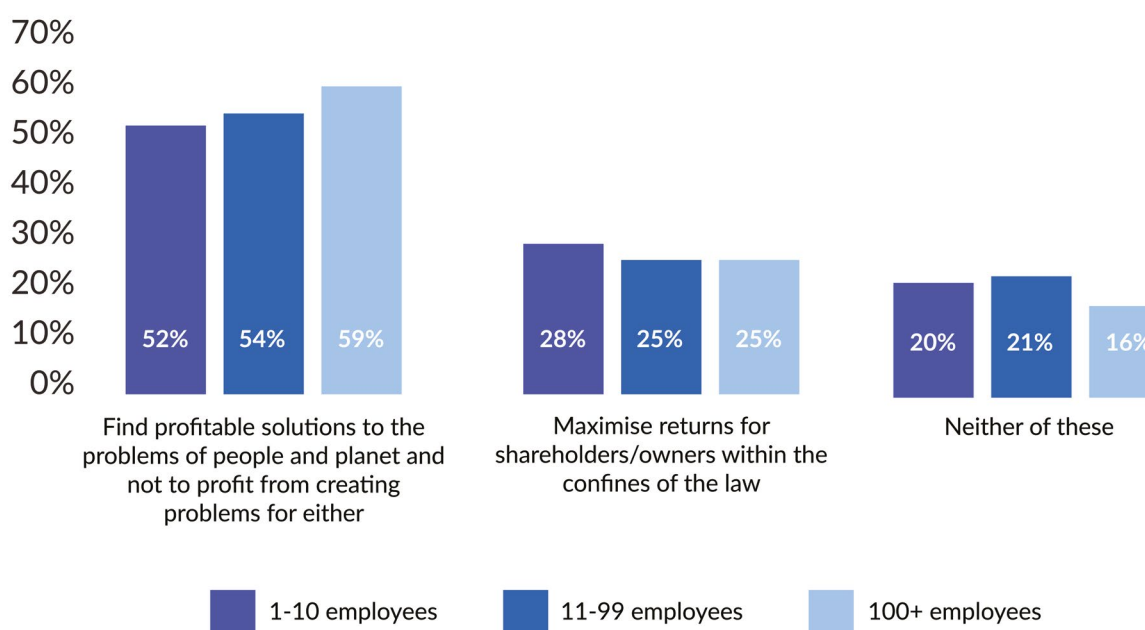
Source: Scottish Business Monitor, 2021 Q3. Survey of 475 businesses. <sup>99</sup> \*Numbers may not sum to 100% due to rounding



More than half of businesses of all sizes agree that the purpose of businesses is to find profitable solutions to problems of people and the planet and not to profit from creating problems for either. Larger businesses were more likely to agree (59%) with this option.

Just over half of small businesses agreed (52%) and a slightly larger share of small businesses (28%) thought that the role of business is to maximise returns for shareholders/owners within the confines of the law. A higher share of small businesses than larger businesses opted for neither of these and part of the explanation for this finding may be that larger businesses are more sure of their aims than small businesses and have the resources to implement them. Alternatively, in smaller businesses (e.g. owner-managed, self-employed businesses) we acknowledge that a key driver behind being in business by the owners may be meeting the needs of themselves and their families, or to fund other initiatives. We heard that small businesses that are creating wider value for society are less likely than larger businesses to think of themselves as a purposeful business profitably solving social problems. The choice of many consumers during the pandemic to support their local businesses <sup>100</sup> suggests that people appreciate that value. Despite this support, the impact of the pandemic on small businesses' margins may be a reason for the slightly higher share who opted for maximising returns.

### Role of business in society – by business size



Source: Scottish Business Monitor, 2021 Q3. Survey of 475 businesses. <sup>101</sup>

After finding that a majority of businesses support a role in which results for customers and investors are achieved in tandem with wider benefits for employees, the wider community and our environment, we asked about the actions they have recently taken in this regard. <sup>102</sup>

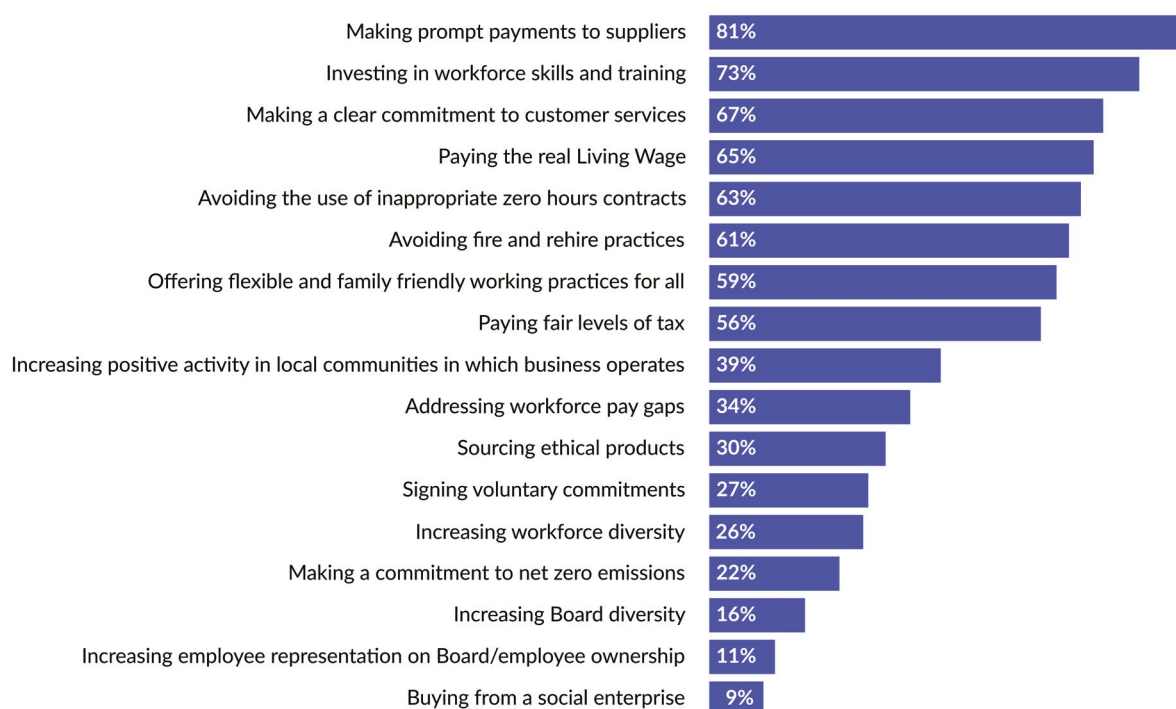
<sup>100</sup> Three in five consumers have used more local stores and services to support them during lockdown | Deloitte UK

<sup>101</sup> Scottish Business Monitor, 2021 Q3 | FAI (fraserofallander.org)

<sup>102</sup> Scottish Business Monitor, 2021 Q4 | FAI (fraserofallander.org)

We found that a majority of businesses said that they had strengthened a range of fair working conditions for existing employees, made a clear commitment to customer services and paid fair levels of tax. These actions are very similar to the public's priorities for businesses as previously set out. Over 80% of businesses had acted to make prompt payments to suppliers. While (as would be expected) this action is a lower priority for the public, it is one of the elements of the Scottish Business Pledge, and it has been especially important to the survival of many small businesses and the health of local economies during the pandemic.

### Recent purposeful actions by business in Scotland



Source: Scottish Business Monitor, 2021 Q4. Survey of 366 businesses. <sup>103</sup>

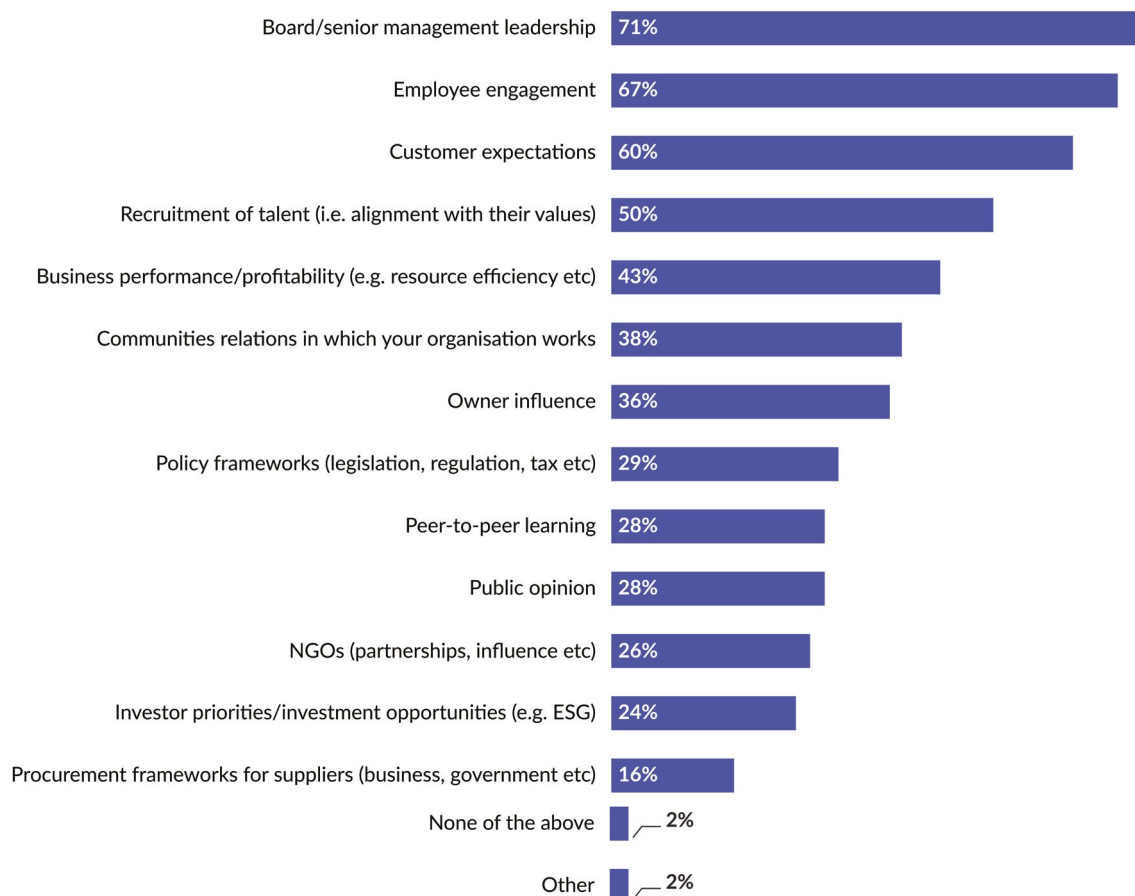
Although the survey of businesses took place immediately following the UN Climate Change Conference in Glasgow, fewer than a quarter of businesses said that they had made a commitment to net zero emissions. This may suggest that more businesses, particularly SMEs, need support to reduce their environmental impact. Diversity in workforces and boards has been shown to help businesses meet their skills needs and to develop new and improved products and services which better meet the needs of their customers, yet also had a relatively low score in our survey. This may suggest that more businesses would benefit from actions to increase people from a range of backgrounds and experiences in their workforces. <sup>104</sup>

Our call for evidence asked businesses why they have this wider view of their role in society and how they are thinking about their purpose in the future. We asked businesses about the main factors, if any, driving the adoption of more purposeful practices by their business.

<sup>103</sup> Scottish Business Monitor, 2021 Q4 | FAI ([fraserofallander.org](https://fraserofallander.org)). 'Purposeful businesses create profits by pursuing a purpose that benefits society. Which actions has your business taken aligned to your purpose in the last 3 years?'

<sup>104</sup> Diversity wins: How inclusion matters ([mckinsey.com](https://mckinsey.com))

### What has been driving more purposeful practices?



Source: Business Purpose Commission for Scotland Call for Evidence. Survey of 127 businesses.

**People are the strongest influence on the adoption of purposeful practices by businesses** – as board members and managers (71%), employees (67%) and potential employees (50%), and customers (60%). While these businesses said that Board/senior management has the highest influence, businesses in our workshop debated whether board/senior management themselves are the main driver or are responding to the changing values and beliefs of employees. We believe that in purposeful businesses the influence flows both ways and is mutually reinforcing. We can tell from many purposeful businesses that board/senior management leadership is a key to driving purpose and enabling employees to drive purpose.

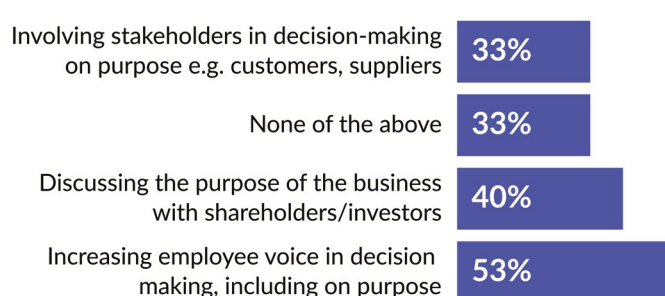
We can also see that **public policy has been a relatively low driver of more purposeful practices by businesses** (29%). In particular, only 16% of businesses said procurement. This contrasts with the frequency with which we heard that procurement should be a future driver. Investor priorities and investment opportunities were mentioned by less than a quarter of businesses. As investors are rapidly growing the funding available for businesses which have strong social and environmental performance, this may suggest that significant numbers of businesses in Scotland are missing out on this funding source. Connecting purposeful businesses with these investors around the delivery of profitable solutions to the problems of people and planet is a major opportunity for businesses to fund their growth.

We also asked businesses how <sup>105</sup> and with whom <sup>106</sup> they have developed new purposes. The role of employees is again to the fore and there is a focus on business culture and values. A minority of businesses had worked with shareholders/investors and stakeholders, or made changes to their purpose, accountability arrangements and reporting. Joining-up purpose with strategy, operations, behaviours, performance measurements, and communications will be important. Businesses will need to demonstrate this to attract funding from these investors, and build trust and confidence among customers, talent and other stakeholders.

### Changing Governance



### Engaging Stakeholders



Source: Business Purpose Commission for Scotland Call for Evidence. Survey of 127 businesses.

We asked businesses what it would take for them or other businesses to make further progress. <sup>107</sup> Their answers highlighted the importance of investment. Over two-thirds (68%) said encouraging a greater flow of equity investment towards purposeful businesses, such as investment funds to support purpose-led SMEs, well above the next most popular option.

This action was proposed for the UK and Scottish governments, but the next group are for businesses. These are: creating new and improved ways of operating (58%); giving employees an effective voice in organisational performance (57%); and working with government and social partners to develop and implement a clear, effective and actionable set of principles and goals for purposeful businesses (55%). We believe that businesses are the main agents of change for developing more purposeful businesses and this finding supports our view.

We found a good level of support from businesses for a wide range of potential actions. We will discuss, develop in more detail and prioritise them in later sections of this report.

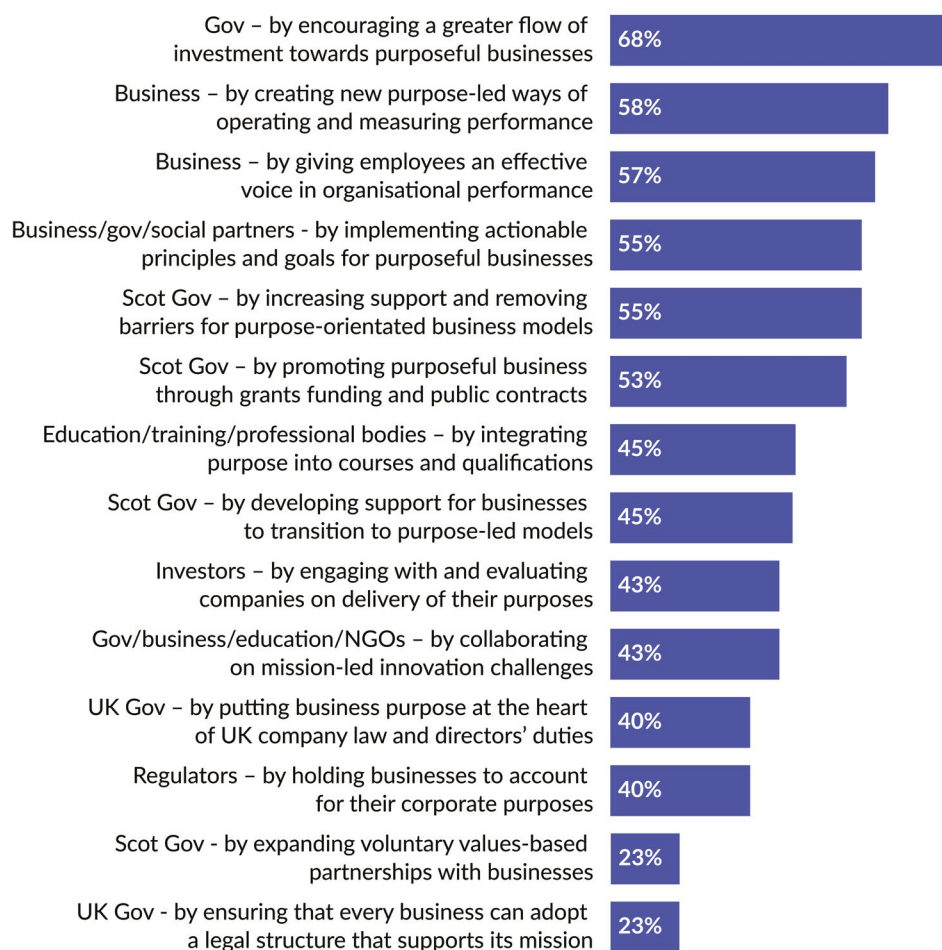
<sup>105</sup> 'Has your governance been changed to reflect your purpose in any of the following ways?'

<sup>106</sup> 'How have you engaged with stakeholders in developing your updated purpose?'

<sup>107</sup> 'What would it take to make a meaningful further shift in the pursuit of purpose oriented goals by your business and other businesses in Scotland?'



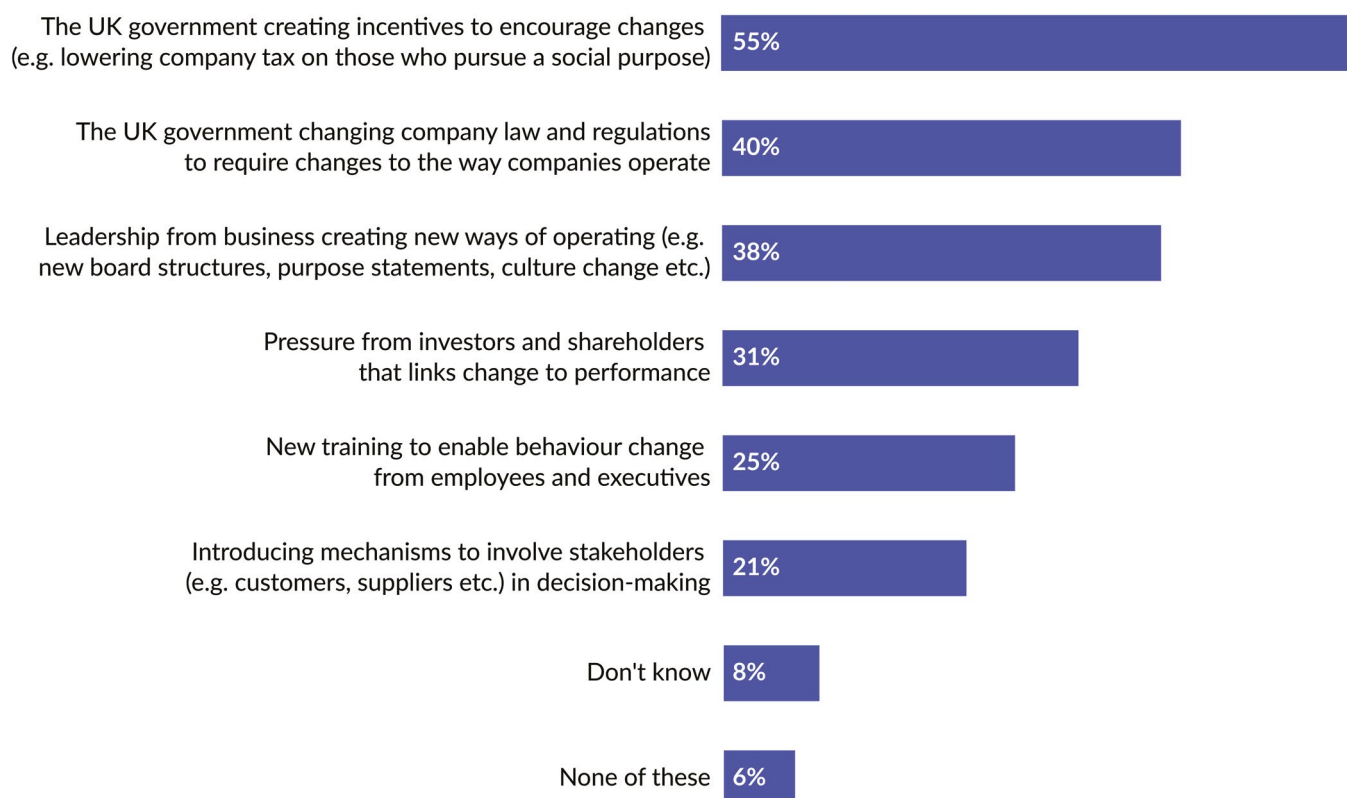
## Developing More Purposeful Businesses - Scotland



Source: Business Purpose Commission for Scotland Call for Evidence. Survey of 127 businesses.

Our remit of reporting to the Scottish Government, along with the profile of businesses who gave evidence, may have led businesses to focus more on actions for the Scottish Government than the UK Government. To sense check this, we have looked at the results of a survey of UK businesses for The British Academy's Future of the Corporation programme.<sup>108</sup> This shows reasonable agreement between the two surveys (e.g. changing company law and regulations to require changes in the way companies operate is supported by 40% of businesses in both surveys). Actions by the UK Government are highly important to develop more purposeful businesses in Scotland and across the UK, and these will be part of our recommendations.

### Developing More Purposeful Businesses – UK



Source: The British Academy, Sept 2020. Sample of 660 senior business decision makers.<sup>109</sup>

### Discussions with Businesses

We discussed our findings and asked for views from businesses in two online workshops and an in-person dinner in Glasgow. Just over 100 businesses of different sizes and sectors, with a range of perspectives on business purpose, and from around Scotland participated in them.

We asked them about purposeful business in Scotland now and their ambitions for what it should look like in 10 years, what businesses should do to drive purpose and how purposeful business should be nurtured. The SWOT analysis below summarises the views we have heard from businesses. Overall, the analysis shows that the purpose ecosystem in Scotland has many strengths and that there are many opportunities for businesses, but that the ecosystem is pre-tipping point. It underlines that businesses are facing many pressures there is a need to make business purpose as easy as possible for them to adopt and de-risk change. We unpack these opportunities and challenges for businesses in more detail in the next section.

<sup>108</sup> Survey highlights appetite for new definition of corporate purpose among UK businesses | The British Academy

<sup>109</sup> Survey highlights appetite for new definition of corporate purpose among UK businesses | The British Academy. 'Which, if any, of the following do you think would be the most important in helping to develop 'purposeful' businesses in the UK?'

## Strengths

- Greater awareness of purpose
- More businesses starting purpose journey
- Critical mass of purposeful businesses
- Positive initiatives e.g. Scotland CAN B etc
- Business mentoring programmes e.g. Chambers of Commerce, CBI Scotland, IoD Scotland etc
- Case studies & best practice to share
- Strong social enterprise & voluntary sectors organisations on which to build & partner with
- Public bodies with good practice in purpose
- Growth in diversity of business models e.g. employee ownership & profit-for purpose
- Educated & informed workforces & public
- Strong & diverse financial services sector, including social investment & Scottish National Investment Bank
- Strong higher & further education sectors
- National Performance Framework incorporating UN Sustainable Development Goals to guide actions

## Weaknesses

- Understanding of purpose limited across business base
- Echo chamber around purpose
- Reactive rather than proactive
- Actions in silos rather than holistic
- Positive initiatives not mainstreamed
- Perceptions it's harder in some sectors
- Lack of transparency & accountability

## Business Purpose in Scotland

## Opportunities

- Businesses re-shaping post-COVID-19
- Build shared understanding, evidence & metrics
- Purpose as a business performance tool
- Scale & join-up impactful initiatives
- Integrate and drive shared government-business priorities e.g. Fair Work, Net Zero, wellbeing, levelling-up
- Local place-based networks & partnerships
- Link with tech, digital, innovation & just transition priorities
- Link with skills & talent retention/attraction
- Influence & incentivise e.g. tax changes for purposeful businesses and actions
- Peer-to-peer learning/ business mentoring
- Active private-voluntary sector partnerships/ communities of practice
- Embed purpose in UK company law
- Embed/upskill purpose in private & public business advice
- Education & training on purpose for Boards, managers, workers & younger learners
- Knowledge exchange with academia & international peers
- Promote purposeful businesses via Scotland's values-based trade strategy
- Develop purposeful investment & diversify financial products
- Non-financial performance measurements in accounting
- More diversity & flexibility in use of purpose-orientated business ownership structures
- Purposeful supply chain models/ social value in commercial & public procurement
- Tell a human story & celebrate successes

## Threats

- Current economic challenges e.g. rapidly rising costs
- SMEs lack money &/or time to invest in purpose
- Trade-offs between profit & purpose
- Offering purposeful products &/ or services makes businesses uncompetitive due to lack of action to level playing field
- Tension between scaling-up & long-term value creation
- Crowded/confusing landscape of initiatives in economy
- Can be seen as just another ask of businesses
- BUT...
- The greater risk is that businesses in Scotland do NOT become more purposeful when this is what their customers, talent, investors & stakeholders want







# CHALLENGES AND OPPORTUNITIES FOR BUSINESSES IN SCOTLAND

## Current Priorities for Businesses in Scotland

We have talked with businesses and developed our thinking at a time of great disruption and upheaval. We are highly mindful of that context in suggesting further actions by businesses.

We know how difficult these last two years have been for businesses in Scotland which have had to face unprecedented disruptions, changed ways of working and made difficult decisions in the long-term interests of organisations, employees and stakeholders. There are now around 20,000 fewer businesses in Scotland than there were before the COVID-19 pandemic.<sup>110</sup>

The Scottish economy has emerged from COVID-19 restrictions, but for many businesses recovery will take some time. Another wave of disruption is now breaking over businesses. A recent business survey (undertaken before the Russian invasion of Ukraine and its economic impact) found that only 7% of businesses expected strong or very strong growth in 2022.<sup>111</sup>

Our discussions with businesses have highlighted the following issues:

- Rising costs, and difficulties in sourcing goods and services
- Managing the burden of increased debt

following the pandemic<sup>112</sup>

- Engaging customers, whose attitudes, behaviours and habits may have changed
- Paying rising employee costs and supporting employees with the rising costs of living<sup>113</sup>
- Recruiting and retaining ('The Great Resignation') talent
- Renewing international trade post-Brexit, post-pandemic and with sanctions on Russia
- Transitioning to Net Zero emissions and managing any associated costs<sup>114</sup>
- Building resilience against the likelihood of future economic shocks

Notwithstanding these challenges, many businesses have invested in developing new skills and safeguarding the health of their employees, supported customers, business partners and communities, and delivered returns for their owners/shareholders. We also know that some entrepreneurs and businesses have been able to unlock new opportunities and growth.

We know that many businesses remain in survival mode. However, as we have shown in the evidence presented that, defining a clear business purpose and making a journey to become a purpose-led business will help businesses to survive and thrive – today and in the future.

<sup>110</sup> Scotland's National Strategy for Economic Transformation – gov.scot (www.gov.scot)

<sup>111</sup> Scottish Business Monitor, 2021 Q4 | FAI (fraserofallander.org)

<sup>112</sup> Scottish Business Monitor, 2021 Q3 FAI (fraserofallander.org)

<sup>113</sup> Scottish Business Monitor, 2021 Q3 FAI (fraserofallander.org)

<sup>114</sup> Scottish Business Monitor, 2021 Q4 | FAI (fraserofallander.org)



Before turning to how businesses can be supported with business purpose, we first need to look at the Scottish business base in more detail and the issues that face on that journey.

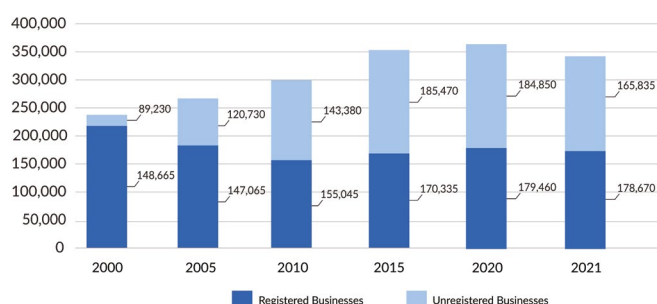
## Business Size Issues

There were 364,310 registered and unregistered businesses operating in Scotland in 2020, an increase of 22% from 2010. Following the onset of the Covid-19 pandemic, the estimated number of businesses decreased by 5.4% (-19,805) between March 2020 and March 2021.<sup>115</sup>

The number of unregistered businesses has more than doubled between 2000 and 2020, before falling by 10.3% in the first year of the pandemic. Meanwhile, registered businesses have grown by 20% between 2000 and 2021.<sup>116</sup>

Unregistered businesses are not registered under the Companies Act and are usually single owner or very small businesses.

### Number of businesses (registered and unregistered)



Source: Scottish Government, Businesses in Scotland: 2021<sup>117</sup>

There was an especially rapid growth in the number of businesses with zero employees of over 92,000 or 64% between 2000 and 2021 compared with less than 14,000 or 16% for businesses with 1-49 employees. This increased the percentage of zero-employee businesses from 61% to 69%, and cut the

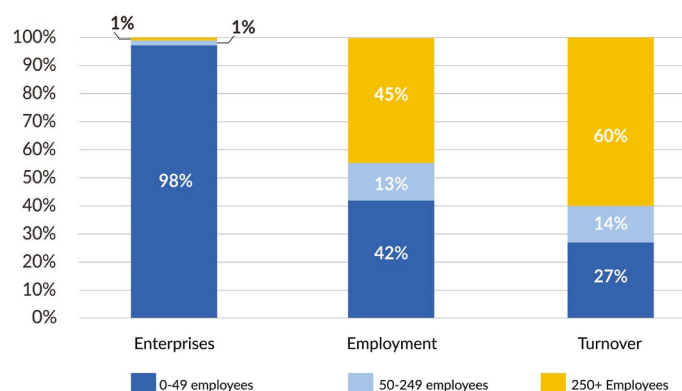
percentage of small businesses from 37% to 30%.<sup>118</sup> Growth in self-employment is associated with growth in the collaborative, or gig, economy.<sup>119</sup>

A key challenge is the communication, adoption and implementation of business purpose in a large, growing and diverse population of businesses in which the average size is decreasing. On the other hand, there is potential to embed purpose in lots of business start-ups.

Many small firms need to prioritise their survival at present by maintaining their commercial viability and, as a result, the jobs which depend on it; but others are starting to re-build and are in a position to review their business models and plans for the post-COVID-19 economy.<sup>120</sup>

The share of medium and larger size businesses in the Scottish economy has remained relatively steady at less than 2% each. There is a long-standing concern that the Scottish economy has a shortage of successful and stable medium-scale businesses of an economy such as Germany with not enough businesses growing to this size. The share of employment and turnover in medium and larger size businesses is much more significant, making up over half of private sector jobs and nearly three-quarters of turnover. Though the share of jobs in large businesses has been falling, it is relatively high compared with 39% for the whole of the UK.<sup>121</sup>

### Share of businesses, employment & turnover by size



Source: Scottish Government, Businesses in Scotland: 2021<sup>122</sup>

<sup>115</sup> Scotland National Strategy for Economic Transformation: evidence paper – gov.scot (www.gov.scot)

<sup>116</sup> Businesses in Scotland: 2020 – gov.scot (www.gov.scot)

<sup>117</sup> <https://www.gov.scot/publications/businesses-in-scotland-2021/>

<sup>118</sup> Going back to bas[e]-ics – How has Scotland's Business Base changed? | FAI (fraserofallander.org)

<sup>119</sup> Supporting documents – Scottish expert advisory panel on the collaborative economy: report – gov.scot (www.gov.scot)

<sup>120</sup> everyones-business-tracker-2020.pdf (cbi.org.uk)

<sup>121</sup> Scotland National Strategy for Economic Transformation: evidence paper – gov.scot (www.gov.scot)

<sup>122</sup> <https://www.gov.scot/publications/businesses-in-scotland-2021/>

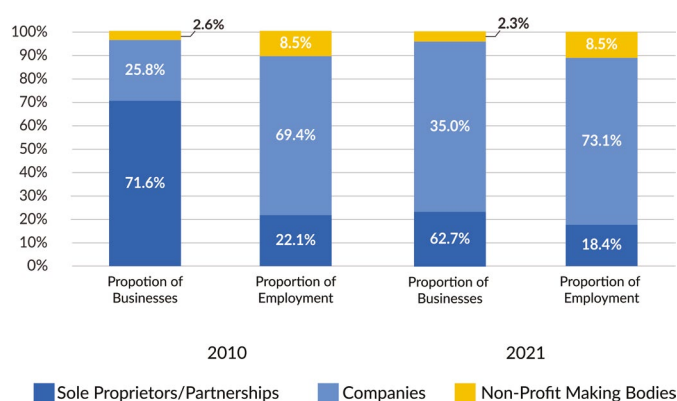
Implementing business purpose in medium and larger size businesses can therefore have a disproportionately large impact on people in work and the economy, including through their supply chains. Some challenges are, however, more concentrated in small businesses. A higher percentage of low-paid jobs in the UK are in small businesses than in large businesses. Start-up businesses are an important source of job creation, but stable and highly paid jobs are rare.<sup>123</sup> There is an opportunity to join-up actions on business purpose with actions to support business growth to, and ongoing success and stability of, medium-scale businesses.

## Business Ownership Issues

Businesses in Scotland have a variety of legal structures based on their history, circumstances and goals. Some models may be more closely associated with delivery of a business purpose.

Sole Proprietors/Partnerships continue to make up a majority of private sector businesses, while Companies provide a majority of jobs. Between 2010 and 2021, the numbers of Sole Proprietors/Partnerships grew by 2,430 (1.1%) and of Companies grew by 43,480 (56.4%), meaning that Companies have increased their share of businesses and jobs in Scotland.<sup>124</sup>

### Private sector businesses by legal status



Source: Scottish Government, Businesses in Scotland: 2021<sup>125</sup>

Most businesses in Scotland are family owned. The

percentage of larger businesses which are family owned is lower, but the 100 largest family firms generate annual revenue of around £20bn and employ over 112,000 people.<sup>126</sup> Rural firms are more likely to be family owned.

### Family-owned businesses by size and location

Family owned businesses	Scotland	Business size			2-fold Urban Classification	
		Micro (1-9)	Small (10-49)	Medium (50-249)		
Yes	72%	74%	61%	55%	76%	69%
No	28%	25%	38%	45%	24%	30%

Source: Scottish Government, National Strategy for Economic Transformation: evidence paper

The most important form of ownership of even the largest listed companies in the world is family ownership. Nearly 50% of blocks of shares of more than 5% in companies are held by families. The UK stands out in having few large shareholders and a remarkably small proportion of family ownership – under 10% in comparison with the global average of nearly 50%. Concentration of ownership and family holdings are both larger in the US than the UK.

The UK began the 20th century with a high level of family ownership and some of the most iconic companies – such as Cadbury's, Rowntrees, Boots and Beecham – being family owned, many by Quaker families who had high levels of ethical standards. But by the middle of 20th century many of the families had sold out or had their ownership stakes significantly diluted by share issues and acquisitions. As a consequence, families in the UK progressively lost control of their firms, and their position as dominant shareholders was replaced by the newly emerging financial institutions, such as pension funds and life insurance companies.

Recent studies report that family ownership is beneficial, particularly where founder CEOs are involved in management and where family control is not excessive in relation to their ownership.<sup>127</sup> Surveys record a higher level of trust in family businesses than

<sup>123</sup> Influencing employers so more people break free from poverty through work | JRF

<sup>124</sup> Business in Scotland: 2021 - gov.sct (www.gov.scot)

<sup>125</sup> <https://www.gov.scot/publications/businesses-in-scotland-2021/>

<sup>126</sup> Family Business MATTERS – Check Out The Numbers To Prove It! | Family Business United

<sup>127</sup> See, for example, Belen Villalonga (2020), "Family Ownership", Oxford Review of Economic Policy.



in other types of companies in many countries around the world. For example, in 2017 Edelman Trust found that 67% of people trust them, compared with 58% for privately-held, 56% for publicly-traded and 52% for state-owned, businesses.<sup>128</sup>

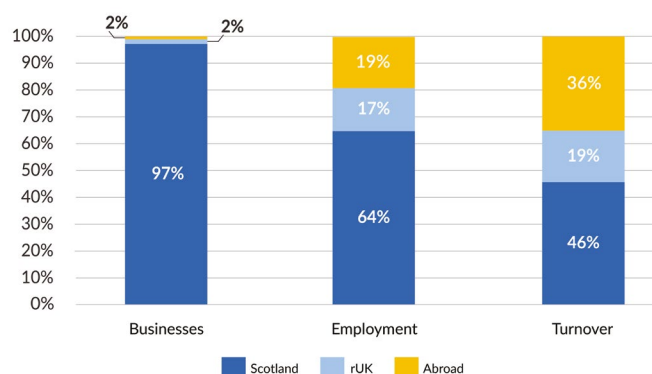
In particular, levels of employee satisfaction are higher in family businesses with employees feeling better cared for, treated and valued and therefore being more committed, devoted and motivated to family than other businesses.

Family-businesses can have difficulties when ownership is transferred from one generation to another or outside family. A business purpose can help inform decisions about the transition, and maintain the stability and focus of the business, and the trust of stakeholders, during and beyond the transition. The transfer of ownership may also be a good moment for a family-founded business to change its legal structure to maintain and further its purpose.

A relatively big share of larger size businesses in Scotland are headquartered outside Scotland, and Scottish growth companies may be sold to businesses in other parts of the UK or abroad, both of which may have an impact on the implementation of business purpose in Scotland.

The vast majority (97%) of businesses are Scotland-owned. However, businesses with headquarters in other parts of the UK or abroad have a more significant share of employment (36%) and more than half of total turnover (54%).<sup>129</sup> Foreign-owned businesses alone account for 36% of turnover and of Scotland's largest 100 exporters nearly 70% are foreign-owned.<sup>130</sup>

### Share of businesses, employment and turnover by business ownership



Source: Scottish Government, Businesses in Scotland: 2021

Internationally owned businesses can have access to leading management practices around business purpose which can be implemented in their Scottish operations. However, there may be fewer local leaders and managers and less flexibility to develop and implement business purpose in their Scottish operations. High skilled jobs may be primarily located in home countries and there is a risk of multinational businesses retreating from foreign locations when economic conditions deteriorate. It may be more difficult for the Scottish Government to influence the adoption of business purpose in businesses which are headquartered in the rest of the UK or overseas, with more limited potential for a differentiated policy approach.

That said, given the importance of inward investment to the Scottish economy, there is the opportunity to focus the attraction of investment in Scotland by existing and new businesses on purpose and build a reputation for purpose. The Scottish Government's *Vision for Trade* sets out a values-led approach to trade and how it wants to work with exporters and inward and capital investors that adopt and align with its aims for the economy, people and planet.<sup>131</sup>

Changes in the ownership structures of businesses have been associated with a long-term decline in the share of workers' wages in the national income of the

<sup>128</sup> Edelman Trust Barometer (2017), "Special Report: Family Business"

<sup>129</sup> Businesses in Scotland: 2021 - gov.scot ([www.gov.scot](http://www.gov.scot))

<sup>130</sup> <https://fraserofallander.org/going-back-to-base-ics-how-has-scotlands-business-base-changed/>

<sup>131</sup> <https://www.gov.scot/publications/scottish-government-vision-trade/>

UK <sup>132</sup> from the late-1970s and in other developed economies, specifically the growth of private equity shareholders. <sup>133</sup>

Employee-owned businesses/co-operatives have been linked in some research to higher productivity, <sup>134</sup> more sustainable business models during crises, <sup>135</sup> and fair work, including more stable and secure forms of employment, higher pay, lower staff turnover and increased job satisfaction. <sup>136</sup> The extent of these positive effects is related to the degree of control workers have in the business <sup>137</sup> and the role of managers. <sup>138</sup> Within low-paid sectors, employee ownership can improve job quality, but businesses may have difficulty in reconciling social and economic purposes. Wider actions are required to tackle challenges in these sectors. <sup>139</sup>

There are around 146 employee-owned businesses in Scotland. <sup>140</sup> The Scottish Government and Industry Leadership Group, 'Scotland for EO', aim to increase their number to 500 by 2030. <sup>141</sup>

## Industry Issues

The industries in the Scottish economy with the most businesses are Professional, Scientific and Technical Activities, and Construction. <sup>142</sup>

Mining, quarrying and utilities have a significantly larger share of the economy than in the UK economy due to the specialisation of the oil and gas industry. As in other developed economies, there is a long-term trend towards service-orientated activities. <sup>143</sup> Retail is the largest private sector employer in Scotland. <sup>144</sup>

Scotland's economic strategy focussed on key growth sectors for most of the last 10 years. These are sectors in which Scotland was identified as having a distinct comparative advantage. They are generally high-tech, R&D intensive, and easily traded or exported. However, in recent years there has been increasing awareness in some countries (including now in Scotland) of the importance of sectors in the so-called 'Foundational Economy'. These sectors create and distribute necessities which support people from all backgrounds in their lives. This includes industries such as retail, health and care, housing and transport. They employ many people and have a footprint in many communities, but also may have lower rates of productivity and innovation, and a higher proportion of low-wage, low-skilled jobs. The industries in the UK in which the highest shares of workers are low-paid are tourism and hospitality; agriculture, forestry and fishing; and service activities such as hairdressing. <sup>145</sup>

People are more likely to understand businesses and industries with which they interact every day, and more likely to have a view about whether they have a good reputation. <sup>146</sup>

As the economy continues to become more service-orientated, this increases the interactions between people and businesses in those sectors, and the likelihood that they will form positive or negative opinions. For many businesses in the 'Foundational Economy' where profit margins are low, it may be more difficult to invest in improving the quality of services and goods, pay and skills to meet the expectations of customers, employees, and society. Their ability to invest may be limited if, as in care,

<sup>132</sup> Labour costs and labour income, UK - Office for National Statistics (ons.gov.uk)

<sup>133</sup> <https://www.jrf.org.uk/report/influencing-employers-so-more-people-break-free-poverty-through-work>

<sup>134</sup> Labour costs and labour income, UK - Office for National Statistics (ons.gov.uk)

<sup>135</sup> Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors - Jenkins - - British Journal of Industrial Relations - Wiley Online Library

<sup>136</sup> Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors - Jenkins - - British Journal of Industrial Relations - Wiley Online Library

<sup>137</sup> Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors - Jenkins - - British Journal of Industrial Relations - Wiley Online Library

<sup>138</sup> Do Employee-Owned Firms Produce More Positive Employee Behavioural Outcomes? If Not Why Not? A British-Spanish Comparative Analysis - Basterretxea - 2018 - British Journal of Industrial Relations - Wiley Online Library

<sup>139</sup> Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors - Jenkins - - British Journal of Industrial Relations - Wiley Online Library

<sup>140</sup> <https://www.insider.co.uk/deals-and-dealmakers/scotlands-146-employee-owned-businesseshave-27069719>

<sup>141</sup> <https://www.gov.scot/news/new-leadership-group-for-employee-ownership/>

<sup>142</sup> <https://digitalpublications.parliament.scot/ResearchBriefings/Report/2021/9/8/156e5f62-2676-4ce1-8885-7a11b5d0a0fb>

<sup>143</sup> <https://fraserofallander.org/going-back-to-base-ics-how-has-scotlands-business-base-changed/>

<sup>144</sup> <https://www.gov.scot/publications/getting-right-change-retail-strategy-scotland/>

<sup>145</sup> <https://www.jrf.org.uk/report/influencing-employers-so-more-people-break-free-poverty-through-work>

<sup>146</sup> <https://www.cbi.org.uk/media/6085/2020-12-everyones-business-tracker.pdf>

government funding does not allow for it.

People may also have a lack of trust in or strong opinions about industries with which they rarely or never interact. This can be based on the size and power of the businesses in the industry, negative information, bad practices by some businesses, or worries about their social or climate impacts. Businesses in these sectors can find it more difficult to show that they are taking purposeful actions which address these concerns because they are not widely understood by the public and have fewer opportunities to engage and build trust with them.

Leading businesses and sectoral trade associations are taking forward actions to tackle the issues that they face, increase trust and protect their social licence to operate. However, sector-wide changes can be complex and take time to achieve. For businesses and sectors, a just, socially fair and inclusive, transition to Net Zero emissions will be a major challenge.

The Scottish Government aims to work with sectors in these areas. It will develop Just Transition Plans which provide detailed decarbonisation pathways

for industries, starting with energy, agriculture, construction and retail, with more sectors to be agreed. Following publication of Scotland's *AI Strategy*, its intention is that Scotland will build an international reputation for adopting trustworthy, ethical and inclusive AI technologies. Scotland's Fair Work Convention is taking forward action with social care and the construction industry and will be developing actions with the hospitality industry and the collaborative economy, in which consumers use online platforms to provide, buy, sell, share or rent goods and services.

We believe that business purpose can support all sectors of the economy to address their challenges and opportunities by focussing and integrating actions which drive better business performance and strengthening their relationships with internal and external stakeholders.

To highlight this potential, we have worked with businesses and trade associations to set out business purpose challenges and opportunities for some key sectors of the Scottish economy:



# Construction

## What are major priorities for the sector at present?

- Transition to more environmentally and efficient methods of construction.
- Development of next generation of business leaders – including diversity.
- Attraction, retention and upskilling of people for industry growth and sustainability.
- Control of costs and reliability of supply to deliver projects on budget and time.
- Digitalisation and innovation around products, business models and services.

## What are some challenges for businesses in the sector in implementing purpose?

- The sector is low margin, high risk, and clients (especially private sector and investors) are comfortable with tried-and-tested business practices and methods. There is a need to build capacity and secure client support for the implementation of purpose.
- Around half of workers are self-employed, which benefits some but has consequences for job security, a lack of an effective voice for workers and distrust of businesses.

- The sector has consolidated, and only large businesses can risk or afford to bid for larger projects. A healthy innovation system has a range of businesses and leaders.
- The sector is very contractual, which offers comfort when dealing with large complex and often publicly funded projects but is not conducive to innovating in delivery or collaboration.

## What are some opportunities for businesses in the sector in implementing purpose?

- Keeping pace with the increasing social and environmental priorities of customers.
- Securing ESG investment and the support of investors for innovation in the sector.
- Attraction and retention of a new and more diverse generation of business leaders and workers who choose places to work based on their societal value and fairness.
- Diversifying the business base e.g. business size, legal structures, business models.
- Increasing trust in the sector e.g. main contractor/supplier, employer/employee etc.
- Making the link to wider purpose more transparent.



# Retail

## What are major priorities for the sector at present?

- Swing to online shopping requires improved digital capabilities and improvements in customer experience and marketing to increase footfall in physical shops.
- Problems in supply chains and inflationary costs, impacting on prices and profits.
- Staff well-being, safeguarding of jobs, and the attraction and retention of workers.
- Higher productivity, including reskilling and upskilling as technologies change jobs.
- Attraction of people to town and city centres and repurposing of vacant retail units.
- Ethics and sustainability of products in light of the climate crisis.

## What are some challenges for business in the sector in implementing purpose?

- The sector was especially hard hit by COVID-19 restrictions and has many competing priorities, such as the impact of the war in Ukraine on consumers and supply chains.
- The costs of implementing purpose due to financial pressures and low margins e.g. fair work conditions and paying the real Living Wage to tackle in-work poverty.

- The sector is restructuring and there will be more store closures on High Streets and automation of some tasks which will result in job losses and reduce job security.

## What are some opportunities for business in the sector in implementing purpose?

- Fulfilling demand for socially driven products in domestic and international markets.
- Attracting new customers and delivering greater customer loyalty through purposeful brand values and engaged employees who deliver great face-to-face customer service.
- Attracting purpose-driven entrepreneurs into retail with the skills to drive change.
- Attracting talent, reducing staff turnover through higher real wages and making careers in retail more appealing, guiding adoption of new technologies to augment human skills and job quality.
- Promoting sustainable business models with a stronger medium to long term outlook.
- Developing stronger links with the communities where businesses operate.

# Technology

## What are major priorities for the sector at present?

- Global accessibility and affordability of new technologies to disadvantaged individuals and communities around the world.
- New technologies as sources of good jobs.
- Development of a critical mass of viable start-ups and scale-ups in the ecosystem.
- Education and attraction of talent to reduce skills shortages and wage inflation.
- Recruitment of experienced leaders and managers to take start-ups to scale.
- Availability and attraction of larger investors to accelerate business growth.
- Geopolitical uncertainty and the risks of doing business in international markets.

## What are some challenges for businesses in the sector in implementing purpose?

- People's trust in the industry globally has been dwindling in recent years due to negative opinions about Big Tech companies, online hate speech and data privacy concerns.
- Businesses face competitive and investor pressures to scale-up as rapidly as possible, then often sell out, which can be at odds with implementing a long-term purpose.
- The sector cannot at present meet demand for digital, data and AI services and skills, accelerated by the pandemic, which limits their bandwidth to implement purpose.

- The shortage of experienced leaders and managers, and lack of diversity at all levels of businesses, may not nurture the organisational culture and openness to change.

## What are some opportunities for businesses in the sector in implementing purpose?

- Building public trust in the use of their data to create profitable solutions.
- Establishing a positive global reputation for ethics which drives international sales.
- Widening the pool of talent by attracting more people from education, diverse backgrounds and outside Scotland who want to use their skills for social good.
- Attracting new and larger sources of funding from investors seeking positive impacts.
- Increasing innovation by identifying opportunities to develop and adopt technologies with strong impact e.g. AI which helps businesses to measure and monitor their progress towards their purpose easily and cheaply, reduces inequalities, Climate Tech etc.

# Oil and Gas

## What are major priorities for the sector at present?

- Maintaining a secure and affordable supply of energy for the economy and society while driving a “just transition” to accessible, affordable, renewable energy sources.
- Attraction of globally mobile investment in new oil and gas production and low carbon technologies such as Carbon Capture and Storage, hydrogen and offshore wind.
- Optimising domestic production in a declining basin to deliver the UK Government's priority of security of supply with the phasing out of oil imports from Russia.
- Cutting emissions and anchoring the supply chain to support the energy transition.
- Attraction of new people into an ageing workforce and reskilling existing workers.
- Regaining public trust in the industry and its commitment to the energy transition.

## What are some challenges for businesses in the sector in implementing purpose?

- The sector has to balance providing security of oil and gas supply and building political and public confidence that it is committed to a trajectory to net zero emissions.
- Balance sheets suffered due to low prices and declining production, and investor confidence is low, which may increase pressure to maximise shareholder returns and not generate the sustainable earnings for businesses to create low carbon solutions.

- Environmental NGOs do not trust their commitment to the energy transition or social licence to operate, resulting in social activism and weaker stakeholder engagement.
- The sector can struggle to attract people with the right skills to help it implement purpose.
- Transitioning a highly skilled energy workforce into new energy solutions and technologies when jobs in these areas pay significantly less than jobs in oil and gas.

## What are some opportunities for businesses in the sector in implementing purpose?

- Bridging the gap between global goals for people and planet, and business decisions on what needs to stop or be transitioned, and where new solutions are needed.
- Maintaining a stable and supportive government and regulatory environment.
- Encouraging a less polarised debate and increasing the focus on solutions.
- Fostering collaboration between businesses and with stakeholders.
- Attracting investment and channelling it to deliver the strategic intent.
- Developing and deploying technology for an affordable net zero energy industry.

## Emerging Priorities for Businesses in Scotland

The COVID-19 crisis accelerated ongoing changes in the nature of work. While there is uncertainty about some trends over the next 10 years, we know that workforces will be more diverse in age, generation, gender, and ethnicity. The transition to Net Zero will create new green jobs and green existing jobs. People will work with digital and automation technologies in their work environments, which, for many of them, will be remote from a company office. <sup>147</sup>

In many businesses, work will become increasingly fluid as people move from project to project and teams are formed with a wide range of different skills, expertise and locations. Businesses will collaborate more to develop profitable solutions and access new markets. <sup>148</sup>

For businesses, increasing their productivity will be vital to be competitive and afford higher pay. This will mean improving, adapting and making fuller use of skills, including digital and customer skills, and improving the quality of jobs and employee engagement in all sectors.

Purpose-driven businesses will strengthen our economy, society and environment here in Scotland and beyond, which will, in turn, increase trust in business, attract investment and underpin a prosperous and resilient market economy for businesses' products and services.

This risks to profits, people and planet of not pursuing business purpose are increasing. The next three sections focus on key policy areas which will nurture purposeful businesses and a mature purpose ecosystem, enabling businesses to lead a more positive future for society.

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<sup>147</sup> No Turning Back CBI

<sup>148</sup> <https://www.gov.uk/government/publications/jobs-and-skills-in-2030>





# KEY THEMES/ OPPORTUNITIES

## How to support businesses with purpose

### Introduction

Businesses are the primary agents of change in driving business purpose. However, the evidence makes clear that there are challenges for many businesses in Scotland and that on the current trajectory there will not be the pace and scale of change necessary to achieve economic transformation. In this section we set out how businesses can be stimulated and helped on their business purpose journeys through business support, incentives and policies.

In challenging and complex economic conditions, it is very important that legislative and regulatory changes designed to promote business purpose are well-targeted, backed by business support, and enable and incentivise actions. Regulatory overload should be avoided.

### Business Policies

Every business would benefit from describing its purpose – why it exists, what it does and how it makes a positive impact. Based on the help for businesses we propose, businesses should use purpose to drive better performance and report on their progress and impacts simply, consistently and transparently to employees, investors, customers and stakeholders.

Businesses can define their business purpose in their articles of association under existing company law. This places a duty on directors to take decisions in line with that purpose. In their company purpose, they can set out their core reason for being and the positive impact that they make on all their stakeholders. Online services are available to help businesses define a business purpose and create or amend their company articles.<sup>149</sup>

We recommend that business directors should determine and implement company purposes in their articles of association. There is a lack of awareness and uncertainty in businesses on whether they can use existing legislation. We recommend that the UK Government changes the guidance for section 172 (2) of the 2006 Companies Act to make clear that they can.

Prior to the 2006 Companies Act, companies were required to include an objects clause in their articles of association which listed the activities that it was permitted to undertake, and any activities outside of those listed were potentially legally voidable. As a result, businesses often drafted objects clauses which were long, unwieldy and meaningless to avoid legal difficulties, with a catch-all clause included to cover as much potential activity as possible.

Businesses came to view the effect of Objects Clauses as limitations on their activities rather than

149 <https://getpurpose.ly/>



positive statements about their business purpose and the 2006 Companies Act abolished them. The Act reinforced shareholder primacy, placing a duty on directors to act in a way that benefits shareholders, although they must have regard to the interests of other stakeholders. The Better Business Act coalition of over 1000 UK businesses and organisations including the Institute of Directors is currently campaigning to amend Section 172 of the Companies Act to legally oblige every company to align their interests with those of all of their stakeholders.<sup>150</sup>

We recommend that the UK Government should amend Section 172 of the Companies Act to require companies to state their purpose in their article of associations, based on The British Academy's formulation that the purpose of business is *'to find profitable solutions to the problems of people and planet, and not to profit from creating problems for either of them'*. We support the proposal by the Better Business Act coalition to change the focus of the director's duty from *'to promote the success of the company'* to a duty *'to advance the purpose of the company'*. Business purpose should, therefore, be made a mandatory element of professional development and promotion for Board members and decision-makers.

Company reporting should be amended by the UK Government and the Financial Reporting Council to ensure it includes information on non-financial measures, such as impacts on and investment in workforces, society and the environment. This would follow the mandatory climate-related financial disclosures now required from companies in their financial reports.

As some models may be more closely associated with the delivery of a business purpose, we believe that all new businesses should be able to adopt a legal structure that best supports their purpose, and that businesses should be able to transition from one form of legal structure to another in the interests of maintaining and making progress with their purpose.

Company law is a reserved policy and we recommend that the Scottish Government should seek to

encourage the UK Government to amend the Companies Act as has been proposed.

The Scottish Government's valued-based partnership with businesses is the Scottish Business Pledge. Launched in 2015 and refreshed in 2019, it is being currently reviewed. Over 820 businesses have made a voluntary commitment to 3 core and 5 of 7 additional elements.<sup>151</sup>

### Scottish Business Pledge Elements

1. Paying the real Living Wage\*
2. No inappropriate use of zero hours contracts\*
3. Action to address the gender pay gap\*
4. Environmental impact
5. Investing in a skilled and diverse workforce
6. Workforce engagement
7. Innovation
8. Internationalisation
9. Support your community
10. Prompt payment

\*Core Business Pledge element which businesses must already have met

Businesses must also commit to at least five of the other seven Pledge elements to achieve over time.

We support the intent behind and content of the Pledge, but we have heard from some businesses which have signed it (especially those that have achieved all the elements) that it can seem like a one-off commitment rather than part of a business purpose journey.

We recommend that the Scottish Government's review of the Scottish Business Pledge should focus on how it can promote and support continuous improvement across and beyond all its elements. We believe that consideration should also be given to repositioning the Pledge as the Scottish *Business Purpose* Pledge to give emphasis on the commitment as a journey.

While the number of businesses which have made

<sup>150</sup> <https://betterbusinessact.org/>

<sup>151</sup> <https://scottishbusinesspledge.scot/pledge-partners/>

the Scottish Business Pledge has continued to grow steadily, it is still a small percentage of businesses in Scotland, and while some sectors are prominent, some other sectors are underrepresented. We recommend that the Scottish Government should aim to increase the benefits to businesses of making the Pledge and connect businesses which have made the Pledge, and that business representative organisations and businesses should promote the Pledge to their networks and value chains.

There are a range of other values-based pledges, commitments, kitemarks etc for businesses in Scotland. Business purpose helps to integrate purposeful actions by businesses which suggests that they might benefit from some integration of valued-based accreditations. We recommend that the Scottish Government should explore whether these could be brought under the umbrella of or have a stronger relationship with a Scottish *Business Purpose* Pledge.

The business policies we have set out so far are specific to business purpose, but to drive wider transformation across the economy it should also be integrated into all economic strategies, including sector strategies. We believe that the transition to clean growth and innovation activity are immediate opportunities because they are priorities for businesses.

Critically, business purpose should be a golden thread in the National Strategy for Economic Transformation Delivery Plan which links and catalyses all its programmes and policies. We recommend that the Scottish and UK Government and sector representatives should embed and encourage commitment to business purpose in new sector strategies. This should include the co-designed and co-delivered Just Transition Plans which the Scottish Government will be leading. These are intended to support the delivery of Scotland's *Climate Change Plan* directly by providing detailed decarbonisation pathways for specific industries, aligned with Scotland's 2045 net zero target and advice from the UK Climate Change Committee and Scotland's Just Transition Commission. There will be Just Transition

Plans for the energy, construction, agriculture and retail sectors, with other sectors to be confirmed.

A positive focus on a business purpose journey and finding profitable solutions to problems of people and planet can engage and catalyse actions by businesses in Just Transition Plans. This will help to deliver a transition to net zero that maximises the economic and social opportunities, while managing the risks for industries, workforces and local communities.

Business purpose is a driver of innovation by creating a culture that supports innovation, focusing on a meaningful impact beyond everyday income, and facilitating collaborative partnerships. Businesses focus on how they can shape a future marketplace and organisation in which customers and employees are increasingly motivated by their impact.<sup>152</sup>

We recommend that the forthcoming Scottish Innovation Strategy and the UK Innovation Strategy launched last year aim to unleash purpose-driven innovation across the economy.

Business purpose can help innovative companies to grow and scale by attracting private finance and ESG investment into developing profitable solutions for people and planet, unlocking Scotland's public sector spending power to encourage and influence innovation activity, and attracting and retaining purpose-driven leadership, management and talent.

Innovation is a priority in foundational sectors of the economy which provide essential services in society and in which lower productivity businesses are overrepresented. Improvements in innovation activity in these sectors would have a large impact on inclusive growth and challenges such as low pay because of their size, spread and workforce profile.<sup>153</sup> Business purpose can help businesses in foundational economy sectors with finance, procurement and skills.

We recommend that the Scottish Government aims to increase both mission-orientated innovation and foundational economy innovation in the Scottish Innovation Strategy. In the 'How to empower

152 How a higher purpose drives better innovation | EY UK

153 Innovation in the everyday: supporting the sectors that improve daily life | Nesta



employees to drive purpose' section we highlight the relationship between fair work and the ability of employees to drive radical and (especially) incremental innovation. As we set out later in the section, business purpose offers a platform for businesses, government and partners to develop new partnership models to find solutions to challenges.

We recommend that Innovate UK, the UK Government and Scottish Government increase awareness of UK Innovation Strategy funding sources to address environmental and social missions, and assist purposeful businesses and educational institutions in Scotland in applying.

As we set out (see 'Challenges and opportunities for businesses in Scotland'), people's trust in the global technology industry has been dwindling due to negative opinions about Big Tech companies, online hate speech and data privacy concerns. There is also concern that the increasing use AI in organisations includes some who are using it in ways that exclude groups.

This is both a challenge for Scotland's tech sector and an opportunity. The vision of Scotland's *AI Strategy* is that Scotland will become a leader in the development of trustworthy, ethical and inclusive AI, and includes actions to lead the way in AI technologies for social good. We recommend that the Scottish AI Alliance Leadership Circle should engage with businesses in the tech sector (including start-ups, scale-ups, 'zebras' which prioritise sustainable growth and ESG, 'unicorns' with valuations of over \$1bn) on business purpose and purposeful tech.

We recommend that the Scottish Government's advisory board for the implementation of the Review of the *Scottish Technology Ecosystem* and the technology sector in Scotland should embed business purpose through the actions being taken in each of its focal areas.

We want more businesses in Scotland to think and act globally. Customers, businesses and governments around the world need solutions to the growing

challenges for people and the planet and want to buy from and work with innovative and trustworthy businesses.

Purposeful Scottish businesses, such as vertical farming innovator Intelligent Growth Solutions <sup>154</sup>, are rapidly expanding to supply their products and services to these markets.

In recent years, there has been growing awareness and concern about the impact of unfair trade on developed countries, and increasing pressure on businesses to offer better prices, decent working conditions, local sustainability, and a fairer deal for farmers and workers. The climate impacts of global production, supply chains and consumption have been the focus of increasing scrutiny. Corporate tax avoidance by multinationals companies has also caused scandals.

Business purpose encourages relationships that go beyond producer-supplier-customer to one in which there is a shared purpose and values based on a fair and transparent trading relationship. This is an ethical way to do business, and it is also fundamental to the reputation of businesses among their customers and stakeholders, and, therefore, a business' social licence to operate, when bad practices are identified and shared globally far more easily.

We welcome the Scottish Government's *Vision for Trade*, which sets out a values-led approach to international trade and how it wants to work with exporters and inward and outward capital investors that adopt and align with its aims for the economy, people and planet. <sup>155</sup>

The creation of an international business purpose partnership or alliance between Scotland and a like-minded country or countries could enable businesses and governments to share policy and practice, forge international collaborations to find profitable solutions and profile Scotland's capabilities in purposeful business practices, partnerships and problem-solving. We recommend that the Scottish Government should work with businesses and stakeholders to explore the formation of such a partnership or alliance.

154 IGS – Scottish vertical farming innovator goes global ([sdi.co.uk](https://sdi.co.uk))

155 Trade: our vision – [gov.scot](https://www.gov.scot) ([www.gov.scot](https://www.gov.scot))

We must also act locally. Place-based policies can nurture business purpose, unlock economic opportunity for large and (particularly) SME businesses, and connect with communities. Living Wage Places (cities, towns and buildings) have been a successful initiative which have got 'boots on the ground' and created collaborative movements for change in their communities.<sup>156</sup>

We recommend that Scotland's local authorities, Regional Economic Partnerships and regional business networks should develop place-based groups for business purpose which engage businesses (including SMEs) and stakeholders in purpose, and in tackling local economic, social and environmental missions. This would build on Edinburgh's recent launch of the council-backed 'Business for Good' programme which offers a free portal for businesses to access resources from masterclasses (e.g. 'Finding your Purpose'), clinics, training on the Scotland CAN B Impact Journey methodology, as well as advisory and mentoring services.

We also recommend that city region and regional growth deal boards leverage business purpose through their investment programmes to improve their economies in the long-term. Further opportunities to embed business purpose in regional and local funding and engage businesses in finding profitable solutions for place-based challenges, include the UK Government's new Shared Prosperity Fund and Community Wealth Building programmes.

## Business Support

In our own business surveys and discussions with businesses we have gathered views on business support. In addition, we have been sharing evidence with Scottish Enterprise. It has recently completed a series of focus groups with established and newly established businesses from a range of sectors on business purpose and the role that it can play in supporting businesses to overcome their barriers to becoming more purpose orientated.



### Drivers

- **Being a 'good' employer**
- Retention - boosting morale, mental health and happiness at work
- Attracting the best talent
- Improving service delivery and product/service quality

- **Engaging with 'green purpose'**
- Essential business practice – a cost of doing business
- Gaining a competitive edge
- Greater cost-savings and efficiencies

### Barriers

- **Time Management**
- Cost

- **Time Management**
- Cost
- Complexity - limited expertise and knowledge within the business
- Feasibility

Source: TMcK, Scottish Enterprise Business Qualitative Purpose Research, April 2022

This has confirmed that many businesses want to be purposeful, understand that customers, employees and investors want them to move in that direction, and are taking a range of actions. Larger businesses and engaged SMEs have more awareness of business purpose, but the majority of Scotland's business base do not yet understand and commit to change. SMEs struggle most with barriers, but capacity and capability are issues for almost all. Businesses want to know that the business benefits will outweigh the costs and need for support.

The ambition of many businesses to become more purposeful, their uncertainty about where to start and these barriers to adoption, highlight the importance of business support.

Businesses are supported by a wide range of private and public sector sources – including business representative organisations, sectoral trade associations, professional advisors (e.g. professional services, banks, consultants etc), enterprise networks, Business Gateways, and academic partners in colleges, universities and Research Technology Organisations.

Many of these organisations and networks currently run programmes with a purposeful business focus or elements, for instance Scottish Enterprise's Unlocking Ambition, an entrepreneurial development programme for purpose-led leaders. The Scotland CAN B initiative, launched in 2018 by the Scottish Government and B Lab UK, offers a training programme for business advisors, consultants, and other business intermediaries using its 'Impact Journey' methodology to help equip them with the skills to help the businesses they support to understand, measure and manage impact on their business purpose journey.

The next stage is to mainstream business purpose. In doing so, there is a need to:

- Use accessible and consistent language across all business support services;
- Connect business purpose and businesses' wider priorities to engage as many businesses as possible and reduce a risk that some may be put off from participation;
- Lead with the business benefits (i.e. attracting and retaining customers, contracts, employees

and investment; compliance with laws, regulations, standards etc);

- Give businesses manageable timeframes to make changes;
- Offer support that is practical at every stage of the business journey;
- Make gathering of data and reporting as easy as possible for businesses; and
- Explain the wider benefits and why these are good for businesses.

In this report, we advocate a definition and language for business purpose informed by our research and discussions with businesses in Scotland, and a review of research. We recommend that the new National Strategy for Economic Transformation Delivery Board should adopt this and endorse consistent adoption by all private and public business support.

We have illustrated sector-specific issues with adopting business purpose for four important sectors of the Scottish economy (see 'Challenges and Opportunities for businesses in Scotland'), but a shared language would be useful to connect businesses in different sectors or with different legal structures and connect businesses with partners and stakeholders.

The 'radical transformation' of the way in which the public sector provides support for workers and businesses – a commitment in the National Strategy for Economic Transformation – should be seized upon to fully embed business purpose in business support.

We recommend that business purpose should be mainstreamed across the delivery of all forms of business support in Scotland with the provision of consistent and good quality advice, toolkits and training. The Scottish Government and public sector should also make this a condition of their funding for all externally delivered business support programmes.

This will require delivery of a consistent programme to train groups of public and private sector business advisors on business purpose. We recommend that the Scottish Government identify a programme (such as the Scotland CAN B initiative and its 'Impact Journey' methodology for businesses and business support professionals) through which this can be delivered at the necessary scale by an organisation with expertise in training and business purpose, and

support delivery of a programme with an extension of existing or new funding. This could be part of a CPD scheme and business advisers could become accredited.

In addition, business-to-business knowledge exchange can be particularly impactful and useful for businesses. Larger businesses may have more time and money to invest in developing purposeful strategies and practices and can play a more active role in mentoring SMEs, including through their own supply chains. However, smaller purposeful businesses could equally mentor larger businesses. We recommend that businesses which have experience of the challenges and benefits of business purpose share their learnings. We highlight commercial procurement as a way to do it in this section in [‘Business Incentives’](#).

Our recommendations for business networks, professional advisers and the public sector are:

Network	Actions
<b>Business networks</b> (business representative organisations, sectoral trade associations etc)	<ul style="list-style-type: none"> <li>• Embed business purpose in policy &amp; programmes e.g. business mentoring by Chambers of Commerce, CBI, IoD, Entrepreneurial Scotland, Women’s Enterprise Scotland etc.</li> <li>• Mainstream consistent training &amp; toolkits</li> <li>• Upskill on business purpose</li> <li>• Signpost to initiatives, networks, resources &amp; support</li> <li>• Connect businesses &amp; encourage collaborations</li> <li>• Share case studies representing businesses ‘like theirs’</li> <li>• Update &amp; communicate opportunities &amp; challenges in adopting business purpose to government &amp; public sector</li> <li>• Promote business purpose journey &amp; successes of businesses in Scotland e.g. media, UK &amp; global business networks etc</li> </ul>
<b>Professional advisers</b> (e.g. professional services, banks, consultants etc)	<ul style="list-style-type: none"> <li>• Embed business purpose in advice</li> <li>• Mainstream consistent training &amp; toolkits</li> <li>• Upskill on business purpose</li> <li>• Signpost to initiatives, networks, resources &amp; support</li> <li>• Evidence financial materiality of business purpose</li> <li>• Signpost &amp; help businesses access ESG finance and investment</li> <li>• Support compliance by businesses</li> <li>• Become purpose-driven businesses</li> </ul>



Network	Actions
<b>Public Sector</b> (Scotland's enterprise networks, Business Gateway, Scottish National Investment Bank, Scottish Government etc)	<ul style="list-style-type: none"> <li>• Embed business purpose in advice, support &amp; funding, targeted at businesses at different stages of their business journey</li> <li>• Mainstream consistent training &amp; toolkits</li> <li>• Make business purpose journey a condition of support &amp; highlight opportunity for businesses on journey to access it e.g. ask all businesses to complete Fair Work Convention's assessment tool to access new Digital Productivity Fund</li> <li>• Make business purpose a condition of public funding for externally delivered programmes e.g. mentoring, incubators &amp; accelerators, SCDI's Productivity Club Scotland etc.</li> <li>• Ensure support for rapid scale-up of businesses is consistent with their business purpose/long-term value creation</li> <li>• Consider business purpose as an overarching theme for associated programmes e.g. Net Zero &amp; Fair Work etc</li> <li>• Upskill on business purpose</li> <li>• Demonstrate business benefits and rationale for change</li> <li>• Connect businesses &amp; encourage collaborations</li> <li>• Share case studies representing businesses 'like theirs'</li> <li>• Facilitate peer learning between companies and supply chains</li> <li>• Signpost to initiatives, networks, resources &amp; support</li> <li>• Signpost &amp; help businesses access ESG finance and investment</li> <li>• Embed business purpose in supplier development programmes</li> <li>• Support compliance by businesses</li> <li>• Support purposeful businesses &amp; social enterprises with international opportunities as part of <i>Vision for Trade</i> values-based trade strategy e.g. social purpose trade missions</li> <li>• Profile Scotland's capabilities in purposeful business practices, partnerships and problem-solving e.g. media, UK &amp; global networks, #ScotlandIsNow campaign, international partnerships with like-minded nations and regions etc</li> <li>• Make information &amp; advice widely accessible for businesses on legal structure options at key points in their development, to increase employee-owned businesses in Scotland from 146 currently to the 'Scotland for EO' target of 500 by 2030.</li> </ul>

We set out a range of Scottish, UK and international initiatives and networks that encourage, practically support and/or accredit businesses with purpose and related actions at [Annex A](#).

We heard from businesses and those leading these initiatives and networks about excellent work and we highlight some examples in the business case studies in this report. But we were also told that a significant

share of businesses do not engage with any of them and that the wide range of them can be confusing for businesses at the start of their purpose journey. This may be exacerbated by the number of bodies working around business purpose themes (e.g. the Fair Work Convention, Just Transition Commission etc) and, more broadly, by the number of public and private organisations active in Scotland's economic development landscape.

We believe that scaling and joining-up those initiatives and networks which can best demonstrate their impact would increase participation and support businesses to make progress. We recommend that the Scottish Government should rapidly determine their effectiveness and target funding on which of them are most capable of scaling at pace to achieve agreed targets to support far more businesses. Organisations with networks of businesses should also encourage them to participate in initiatives which will support them with their purpose.

Stakeholders can play a key role as critical friends. We recommend that they work constructively with businesses to improve their economic, social and environmental impact, challenging when necessary, and recognising progress and plans to make improvements.

As more businesses focus on business purpose and purpose orientated goals for people and the planet, they have the opportunity to forge closer ties with voluntary sector organisations.

Voluntary organisations, community organisations and social enterprises make a significant contribution to Scotland's economy in most sectors. Scotland is seen internationally as a leader in the development of social enterprise with over 6,000 of them operating in Scotland. In the two years before the COVID-19 pandemic the number of social enterprises grew by 8%.

Voluntary organisations and social enterprises are experts at purpose. The sector has a reach which stretches from countries around the world to deep within all communities in Scotland. Businesses can learn about purpose from voluntary organisations and social enterprise, and increase their own impact by working with them.<sup>157</sup> Supporting the sector also augments local 'institutional capital' – the social fabric in which prosperous economies can thrive.<sup>158</sup>

Many voluntary organisations and social enterprises can also learn from purposeful businesses, for example in relation to how best to align the services

or products that they provide with the changing demands of their 'market' to sustain and growth their organisations and impact.

There are positive examples of impactful partnerships between businesses and voluntary organisations in Scotland which show the potential.<sup>159</sup>

We asked the voluntary sector about how businesses, with their partners, should show leadership in the pursuit of purpose orientated goals and about the ways in which purposeful business should be encouraged.

157 <https://hbr.org/1989/07/what-business-can-learn-from-nonprofits>

158 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1052706/Levelling\\_Up\\_WP\\_HRES.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052706/Levelling_Up_WP_HRES.pdf)

159 <https://scvo.scot/p/49501/2022/03/21/the-economic-power-of-a-healthy-organisational-eco-system>

## Views of Scottish Voluntary Organisations

The Scottish Council for Voluntary Organisations (SCVO) is a member of the Commission. We also engaged with members of Social Enterprise Scotland in one of its webinars.

In evidence to the Commission, SCVO highlighted that: “The traditional view has been that businesses lead economic progress, and the public and sector drive social and environmental change. However, there is an increasing blurring of boundaries, making actions perhaps more important than the organisational form. There is now a wide spectrum of organisations operating in Scotland which talk about their contribution towards economic, social and environmental outcomes, from the smallest volunteer-led organisations that SCVO supports to large multi-national corporations... The reality is that businesses have a crucial role to play in social and environmental change, and voluntary organisations make an important contribution to economic outcomes.”

SCVO said that Scotland is in a good position to deliver significant social and environmental impact, but pointed to a need for more robust shared measures of impact which would help identify organisations and businesses whose impact is more than just superficial.

Partnership across sectors is going to be key to unlocking this impact, however recent SCVO research found that there is still some mutual mistrust between the voluntary and private sectors. Relationships are perceived to be ‘transactional’, often related to requests for resources, rather than more strategic opportunities to achieve shared goals. The voluntary sector is perceived to be flexible and responsive, and connected to communities, but is curtailed by challenging short-term funding arrangements.

### SCVO recommends that:

Businesses should extend their relationships with voluntary organisations into key partners in the delivery of their purpose, providing appropriate resources for the work.

Charities and voluntary should be encouraged to engage businesses in supporting the achievement of their own mission, beyond approaches for funding and volunteering.

The public, customers and investors should have their voices heard in strategic decisions and influence businesses to further develop their social and environmental impact.

We have heard that an inhibitor to developing more strong and deep partnerships between businesses and voluntary organisations is that the sectors do not frequently come together.

We recommend that they should discuss and agree a programme of action to create an increased number of active partnerships between them on business purpose. The discussions should include both mainstream and start-up mission-led businesses, and public sector organisations with a focus on purpose. We propose that, as a first step, representative organisations for businesses and voluntary organisations should jointly convene a summit.

Opportunities for business-voluntary organisation partnerships include:

- Collaboration on shared goals and missions;
- Talent exchange programmes;
- Communities of practice on business purpose; and
- Participation by social enterprise in business value chains.

Representative bodies, including SCVO, should also promote good practice in collaboration.

We believe that a better understanding of the overall economic contribution of voluntary organisations, community organisations and social enterprises would facilitate partnership discussions. We recommend that research in this area is developed into official statistics.<sup>160</sup>

Government at national and local levels can also nurture partnerships and deliver on their priorities by ensuring that they recognise the roles of all sectors in improving economic, social and environmental outcomes. We recommend that the Scottish, UK and local governments should more proactively engage whichever sector is not normally represented in an area of economic, social or environmental planning (e.g. the voluntary sector in economic strategy).

## Business Incentives

We heard from businesses that offering ‘carrots’ which influence and incentivise businesses to find profitable solutions would be more impactful than the ‘big stick’ of regulations.

The UK Government currently offers a range of tax reliefs and schemes which are designed to help companies and social enterprises to grow and/or support inclusive business models. These include Social Investment Tax Relief, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Employee Share Schemes. Tax incentives can help to create a stronger business environment when strategically targeted and aligned with other policies.

Taxes can also be a barrier to purposeful business growth and business models. The Employee Ownership Association has identified a range of disincentives in the current tax regime that are obstacles which make it less attractive for owner shareholder and employees to transfer of businesses to employee ownership, including within National Insurance, Corporation Tax, Capital Gains Tax, and business property taxes.<sup>161</sup>

We recommend that the UK Government should produce a Tax Framework for Purposeful Business which brings together existing, reformed and new tax incentives for purposeful businesses and employees, and social impact investors. This should include reform or replacement of the Social Investment Tax Relief (which offers tax benefits to individuals for investments in social enterprises) when it ends in 2023. The UK Government should work with businesses to develop options for its reforms to R&D tax incentives and capital allowances.

Tax incentives in the Tax Framework for Purposeful Business should be simple, efficient, effective and transparent. They must deliver tangible additional social and environmental benefits to mitigate any reduced revenues for public services in the short and long terms. Businesses and investors should use tax incentives to drive business purpose and positive

160 The challenges of measuring the economic contribution of the third sector – SCVO

161 The\_Ownership\_Dividend\_The\_economic\_case\_for\_employee\_ownership.pdf (employeeownership.co.uk)



impact. Our opinion poll found that that paying fair tax was the second highest priority to secure the confidence and trust of people in Scotland (see 'What do people expect from businesses?'). Businesses should be open and transparent about paying the right levels of tax.

One barrier faced by some businesses who want to adopt socially and environmentally responsible practices and products is that there may be a cost to their implementation and their competitors may then be able to undercut them on price. We recommend that the UK Government should also review tax options to ensure that a level-playing field for purposeful businesses, and to disincentivise behaviours by businesses which have negative results.

The Scottish Government has responsibility for fewer taxes which influence businesses. We recommend that it should explore if its tax policies could incentivise purposeful business models, or socially and environmentally responsible business practices and products.

Government is seen to have an important role in de-risking purpose and levelling the playing field for purposeful businesses when their costs are higher. We believe that the UK and Scottish Government should review tax options to ensure that businesses with socially and environmentally responsible practices and products compete on a level-playing field with other businesses, and to disincentive behaviours by businesses which have negative results.

We heard from businesses that procurement policies could also incentivise business purpose.

Around a third of all public expenditure in the UK – c.£300bn every year – is spent on buying goods and services from external suppliers <sup>162</sup>, the single biggest component of government. <sup>163</sup> Scotland's public sector spends more than £13.3bn a year buying goods,

services and works. <sup>164</sup>

Changes in public procurement have increasingly promoted social value, not just low price. The Scottish Government's has placed a duty on public sector buyers to consider opportunities for SMEs, supported businesses and the third sector, fair work practices, community benefits, equalities, net zero and the circular economy, and prompt payments in supply chains. <sup>165</sup> It is extending Fair Work First criteria to all public sector contracts, grant and funding. <sup>166</sup> The UK Government plans to reform public procurement with goals including the generation of social value and more opportunities for SMEs, charities and social enterprises. <sup>167</sup>

Public procurement can be a significant influence, although it does not touch some sectors. Nor do we want new criteria to reduce the number of SMEs which bid for contracts as this would harm local economies and make it harder to engage with SMEs on business purpose.

Some businesses have also started to change their commercial procurement to increase social value and take responsibility for their total value chain impacts on people and the planet. This helps them to unlock value, build resilience, and increase transparency, traceability and trust. <sup>168</sup> A small but growing number of large firms in Scotland have systematically introduced social enterprises into their supply chain, partly prompted by the new public sector duties. <sup>169</sup> All businesses are customers of other businesses and can work to adopt values-based buying.

The public sector can influence commercial buying more directly. For example, successful applicants in the ScotWind offshore leasing round made Supply Chain Development Statements which are expected to make a multi-billion pound investment in Scotland. <sup>170</sup>

Business purpose can help to maximise value chain

162 Transforming Public Procurement – Government response to consultation – GOV.UK ([www.gov.uk](http://www.gov.uk))

163 Summary – Government procurement: the scale and nature of contracting in the UK | The Institute for Government

164 Public sector procurement – gov.scot ([www.gov.scot](http://www.gov.scot))

165 Public sector procurement – gov.scot ([www.gov.scot](http://www.gov.scot))

166 Fair Work First: guidance – gov.scot ([www.gov.scot](http://www.gov.scot))

167 Transforming Public Procurement – Government response to consultation – GOV.UK ([www.gov.uk](http://www.gov.uk))

168 Polman, P. & Winston, A., *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*

169 Key Actions from Across the Action Plan – Social enterprise: action plan – gov.scot ([www.gov.scot](http://www.gov.scot))

170 ScotWind offshore wind leasing delivers major boost to Scotland's net zero aspirations – News – Crown Estate Scotland

impact in the private, public and voluntary sectors – building long-term trust and transparency among buyers and suppliers, focusing on challenges and outcomes on which to work together, and aligning objectives and incentives.<sup>171</sup>

We recommend that private, public and voluntary organisations which buy from suppliers should embed and encourage business purpose in their value chains and reward purposeful businesses. ‘Purpose-related’ specifications should be carefully designed with SME and third sector representatives to increase their participation in value chains and maximise the impact.

Tenders should be specified in ways which focus on finding solutions for people and planet, and promote innovative bids. Larger buyers should work with suppliers in supplier development programmes which include a focus on implementing business purpose through long-term partnerships and fair value chain relationships. The Chartered Institute of Procurement & Supply should assist businesses with their award criteria and assessments.

The Scottish and UK Governments, and public sector agencies, should increase the weighting for and ensure delivery of long-term social value in public contracts, especially in those contracts which could have a more transformational impact on national outcomes, such as those for foundational sectors, social housing commissions, or large contracts and their related sub-contracts e.g. Crown Estate Scotland’s ScotWind offshore wind leasing projects.

The Scottish Government should engage with larger private sector buyers in Scotland to assist with consistent adoption in their award criteria and assessments, broker relationships between business and the third sector, and accredit businesses which support purposeful practices in their value chains, for example through payment of the real Living Wage.

The history of public-private partnerships has often been beset by the conflicting motivations of maximising profits for shareholders in the private sector and providing social benefit in the public sector. This misalignment has reduced long-term value

creation for businesses and society, resulted in costly projects and corporate scandals, and led to a loss of public trust.

Business purpose can bring the motivations of the public and private sector into harmony by defining the role of businesses in these partnerships as finding profitable solutions and not profiting from producing problems, and acting as a ‘guardrail’ in business decision-making. We recommend that government and business should develop new public-private collaborative partnership models which find solutions to deliver objectives e.g. those in the Scottish Government’s *National Strategy for Economic Transformation* or the UK Government’s *Levelling Up the United Kingdom* White Paper on Net Zero carbon emissions, inequalities, opportunity and social mobility, the future of work, and new technologies.

171 Polman, P. & Winston, A., *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*

## How to finance purposeful business growth

*"BlackRock wants to see the companies we invest in for our clients evolve and grow so that they generate attractive returns for decades to come...In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders."*

Annual 2022 Letter to CEOs

Larry Fink, Chairman and Chief Executive, BlackRock <sup>172</sup>

### Introduction

We look in this section at the financial challenges for businesses in Scotland, including purpose-driven businesses, and the opportunities, particularly from the accelerating growth of ESG investing, to finance purpose-driven, sustainable growth in businesses. The financial services sector in Scotland can become a global centre of purposeful finance and expertise, and can shape and support the transformation of the wider Scottish, UK and global economy.

### Finance Issues for Businesses

The UK has an unusually centralised banking system and a dispersed ownership system with global institutional investors owning small proportions of large listed businesses, often for short times. Both factors have distanced relationships between many businesses and their investors and owners, which does not promote provision of the kind of patient capital, more readily available in many European economies, that businesses need for long-term growth. <sup>173</sup>

This has led to a disinterest among some global institutional investors in the purpose of the businesses in which they invest and a focus on short-term shareholder profit maximisation <sup>174</sup>, and, in turn, reduced businesses' motivation and ability to commit to purpose. <sup>175</sup>

Purpose-driven businesses in the UK (generally) do not have the scale of those in Europe, which include globally-successful businesses delivering products and services with societal value, such as Bosch, Zeiss, ZF Friedrichshafen, Novo Nordisk, and Mondragon Corporation.

Smaller purpose-driven businesses often struggle to access long-term capital especially at an early stage, due to a mismatch between their long term vision and investors' short-term priorities. <sup>176</sup> However, there has been some diversification of structures e.g. Profit-for-Purpose firms that do not distribute dividends and invest at least 50% of profits in community benefit.

Social enterprises face similar finance challenges to many SMEs. Scotland's Social Enterprise: action plan jointly developed by the Scottish Government and Social Enterprise Scotland highlights a need to direct growth capital to ambitious, growth-oriented social enterprises. <sup>177</sup>

In our own Call for Evidence, we asked what it would take to make a meaningful further shift in the pursuit of purpose-oriented goals by businesses in Scotland. By a clear margin the most popular option was that the UK and Scottish Governments should encourage a greater flow of equity investment towards purposeful businesses, such as investment funds to support purpose-led SMEs, with over two-thirds (68%) of businesses supporting this option.

Scotland lacks a strong venture capital investment market at present that can provide capital at all stages of business growth, as the *Scottish Technology Ecosystem Review* <sup>178</sup> and *Financing Scotland's Recovery* reports for the Scottish Government highlighted. The *Scottish Technology Ecosystem Review* report compared mature investment markets with immature investment markets such as Scotland's and said that a result of this is that companies may not scale-up or may need to seek funding from outside Scotland, increasing the risk that they relocate. <sup>179</sup>

172 Larry Fink's Annual 2022 Letter to CEOs | BlackRock

173 Chapter 18 – Putting Purpose into Practice: The Economics of Mutuality

174 Inequality, firms, ownership and governance | Inequality: the IFS Deaton Review

175 future-of-the-corporation-principles-purposeful-business.pdf (thebritishacademy.ac.uk)

176 Advisory\_Panel\_Report\_-\_Mission-led\_Business.pdf (publishing.service.gov.uk)

177 Developing Stronger Organisations – Social enterprise: action plan – gov.scot (www.gov.scot)

178 Scottish technology ecosystem: review – gov.scot (www.gov.scot)

179 Financing Scotland's Recovery (www.gov.scot)

Mature Investment Markets	Immature Investment Markets
Mostly VC capital	Mostly “angel” capital
Full range of investments from small to very large	Mostly small investments
High discoverability of prospects i.e. VCs actively scout companies the ecosystem ‘deal flow’	Poor discoverability of prospects – many companies have to go searching for VC.
Lower friction for investors	Higher friction for investors e.g. due to geographical distance and lower density of investable prospects.
Higher pitching expertise among founders	Low pitching expertise among founders
Low-level of government funding	High-level of government funding

Source: Scottish Government, August 2020, Scottish Technology Ecosystem: Review <sup>180</sup>

Finance issues are also a barrier to business purpose for the broader business base. A third (34%) of Scottish businesses have used government-backed finance during the COVID-19 pandemic. In the second quarter of 2021, 22% of UK SMEs using finance were concerned about their ability to repay, rising to 30% of those borrowing for the first time. <sup>181</sup> Many, especially in the worst affected sectors, will struggle to generate sufficient cash to start debt repayments or be forced to direct funds towards repayment at the expense of investment. <sup>182</sup> The sharp economic slowdown forecast for the second half of 2022 due to the economic disruption caused by Russia’s invasion of Ukraine will put more pressure on business finances.

The main source of financing for SMEs is bank

lending, mainly providing short-term working capital. Equity investment is normally accessed by large or innovation-driven enterprises, with a large proportion going to businesses in the south-east of the UK, rather than the SME base with lower growth potential. <sup>183</sup> The Institute for Fiscal Studies’ Inequality Review links this with geographic disparities in productivity and wages. <sup>184</sup> The *Financing Scotland’s Recovery* report – in common with the UK Government’s *Levelling Up The United Kingdom White Paper* <sup>185</sup> – proposes “an imaginative, targeted expansion of equity into non-traditional sectors”. <sup>186</sup>

The UK and Scottish governments have set up government-owned banks. The British Business Bank was founded in 2014 to increase the supply of credit to SMEs. Last year, it announced a revised mission to drive sustainable growth and prosperity across the UK and a new climate change objective. <sup>187</sup> The Bank has acknowledged that it needs to help reduce regional imbalances in access to finance across the UK. In the 2021 UK Spending Review, the UK Government announced a new generation of regional funds managed by the British Business Bank, including a £150m fund for Scottish businesses and a Regional Angels Programme. <sup>188</sup>

The Scottish National Development Bank (SNIB) was launched in 2020 to deliver patient capital investment to businesses and projects, with a focus on Net Zero, Place and Innovation for People missions. The Scottish Government has capitalised it with £2bn public funding over 10 years and it is expected to raise private capital. The SNIB has said that this capitalisation from the Scottish Government will be insufficient to deliver its missions without substantial third-party capital or permission from HM Treasury to borrow on its balance sheet. <sup>189</sup>

The Scottish Government also supports loan funding and business support for social enterprises through

<sup>180</sup> Scottish technology ecosystem: review – gov.scot ([www.gov.scot](http://www.gov.scot))

<sup>181</sup> Scotland’s National Strategy for Economic Transformation: Evidence Paper ([www.gov.scot](http://www.gov.scot))

<sup>182</sup> *Financing Scotland’s Recovery* ([www.gov.scot](http://www.gov.scot))

<sup>183</sup> *Regions and Nations Tracker 2021* – British Business Bank ([british-business-bank.co.uk](http://british-business-bank.co.uk))

<sup>184</sup> Inequality, firms, ownership and governance | Inequality: the IFS Deaton Review

<sup>185</sup> *Levelling Up the United Kingdom White Paper* ([publishing.service.gov.uk](http://publishing.service.gov.uk))

<sup>186</sup> *Financing Scotland’s Recovery* ([www.gov.scot](http://www.gov.scot))

<sup>187</sup> Press Release – September 22, 2021 – British Business Bank ([british-business-bank.co.uk](http://british-business-bank.co.uk))

<sup>188</sup> Regional programmes – British Business Bank ([british-business-bank.co.uk](http://british-business-bank.co.uk))

<sup>189</sup> Scottish National Investment Bank ‘needs private cash to top up £2bn funds’ | Scotland | The Times



Social Investment Scotland and Firstport to start and scale-up their businesses, which it is important to maintain.

The UK and Scottish Government's abilities to provide further support through government-owned banks may be restricted by public finance challenges, particularly over the next few years. This makes it even more important that businesses in Scotland attract private finance.

## Growth of ESG Investing

In the last five years, integrating Environmental, Social and Governance (ESG) criteria into investment decisions has become mainstream in the finance industry as ESG investors have outperformed their peers. The share of the £9.4tr investment managed in the UK in which ESG was integrated into investment processes increased again from 37% in 2019 to 49% in 2020.<sup>190</sup> ESG assets are forecast to exceed a third of the global total of \$140.5tr by 2025.<sup>191</sup> The banking industry is also beginning to deploy ESG ratings to inform their lending decisions.<sup>192</sup>

The rise of large asset managers with ownership of a wide range of businesses exposed to global environmental and social risks and with very long-term investment horizons has also started to re-engage institutional investors with purpose-driven corporate governance.<sup>193</sup>

## What is ESG Investment?

Factors	Includes	Measures
Environment	Climate change, air & water pollution, use of natural resources, biodiversity etc	Global reporting standards for climate emerging; other areas less developed
Social	Relationships with customers, employees, suppliers and communities, social inclusion and diversity, modern slavery, international development, data protection & privacy etc	Global reporting standards least developed currently
Governance	Corporate governance, Board composition, audit, pay, shareholder rights etc	Most established global reporting standards; many within company law

Business purpose and ESG are related and reinforce each other in the creation of long-term value for all stakeholders, but they are not the same. Business purpose is the reason why a business exists and what it offers in the marketplace that will profitably solve problems for people and the planet. Specific ESG commitments should flow from this business purpose and help investors and other stakeholders understand why the business is pursuing them.<sup>194</sup>

With investors increasingly taking ESG into account in investment decisions and advising businesses of all sizes to carry out ESG reporting, more businesses are reporting on their ESG performance. For investors, a strong ESG profile is evidence that the business is being managed well and that it will have a long-term social licence to operate from its stakeholders. The Scottish Government's Green Investment Portfolio markets to international investors key sectors and projects in Scotland that are seeking private finance to achieve net zero emissions.

For firms, the emerging evidence suggests embedding and measuring ESG outcomes can lower the cost of capital. High-ESG-scoring businesses have been shown to have above-market valuation and profitability, and lower costs of debt and equity. While there may be a short-term cost, low-ESG-scoring businesses benefited from improving their ESG practices. Potential factors include a focus on governance standards which reduces its risk of

<sup>190</sup> [IMS report 2021.pdf \(theia.org\)](#)

<sup>191</sup> [ESG Assets Rising to \\$50 Trillion Will Reshape \\$140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence | Press | Bloomberg LP](#)

<sup>192</sup> [Ethical finance poised to unleash the green recovery – Global Ethical Finance Initiative](#)

<sup>193</sup> <https://enactingpurpose.org/assets/epi-report-final.pdf>

<sup>194</sup> <https://enactingpurpose.org/assets/epi-report-final.pdf>

defaulting, and on environmental and social standards which improves management of its resources.<sup>195</sup>

The UK now requires the largest companies and financial institutions to disclose climate-related risks and opportunities in line with the Task Force on Climate-related Financial Disclosures. The impact of this will cascade through the system to all businesses as large companies need to lower the carbon footprint of their supply chains, and financial institutions need to reduce emissions related to their investing, lending and underwriting activities.

However, investors and regulators are concerned that some ESG-funds are not as sustainable as they claim.<sup>196</sup> As a result, there is a need to increase accuracy and consistency in climate reporting arrangements to build greater trust, transparency and investor confidence.<sup>197</sup>

To support the full range of purpose-led businesses, funding and reporting frameworks for the Social and Governance pillars of ESG must also catch-up with the Environmental pillar. Scotland – through Social Investment Scotland<sup>198</sup> – and the UK have been at the forefront of targeting societal and/or environmental objectives alongside a financial return through social investment, but embedding the approach across investors and companies has been slower.<sup>199</sup>

## Opportunities from Purpose-Driven Finance

Scotland's financial services industry has a strong global presence. To sustain and build on this global position, the industry will focus on its societal purpose, maximising its positive societal impact through leading and driving four priority areas:

- Leading the journey to net zero;
- Supporting economic recovery;
- Responding to changing customer needs; and
- Developing skills and inclusion.

Source: Scotland's Financial Services Strategy<sup>200</sup>.

We believe that Scotland's financial services industry has an outstanding opportunity to drive change in the financial system to support business purpose and improve business finance. The industry is globally recognised with strengths in banking, asset management, life and pensions and insurance. It has also become a leader in ESG investing, with particular strengths in active management and equity-focussed funds. Scotland has an 11% share of the UK's responsible investing market compared with a 7% share of the conventional market. The sector has grown at a rate of 27.3% per year since 2004, mostly in climate, impact and ESG funds, although it has grown more slowly than the sector in Ireland over the same period.<sup>201</sup>

It aims to establish a global centre of expertise in green finance and products – including leading the way for transparent disclosure on climate risk and aligning the data requirements and standards across the industry – and support the Scottish economy to achieve net zero.<sup>202</sup> This will be especially important in developing roadmaps for higher carbon emitting sectors.<sup>203</sup> The sector has recently launched a Task Force for Green and Sustainable Financial Services to develop the position of Scotland's sustainable finance sector as a world-leading hub.<sup>204</sup>

<sup>195</sup> <https://www.msci.com>

<sup>196</sup> [Scotland-FinTech-Roadmap-March-2022-lowres.pdf \(fintechscotland.com\)](#)

<sup>197</sup> [Mapping the Responsible Investment Landscape in Scotland – Ethical Finance Hub](#)

<sup>198</sup> [Responsible Business Practices at SIS | Social Investment Scotland | Providing affordable loans for social enterprises and charities](#)

<sup>199</sup> [Advisory\\_Panel\\_Report\\_-\\_Mission-led\\_Business.pdf \(publishing.service.gov.uk\)](#)

<sup>200</sup> [scotlands-financial-services-strategy-may-2021.pdf \(sfe.org.uk\)](#)

<sup>201</sup> [Mapping the Responsible Investment Landscape in Scotland – Ethical Finance Hub](#)

<sup>202</sup> [scotlands-financial-services-strategy-may-2021.pdf \(sfe.org.uk\)](#)

<sup>203</sup> [Embedding ESG and purpose in your organization | McKinsey](#)

<sup>204</sup> [Scottish Taskforce for Green and Sustainable Financial Services – Global Ethical Finance Initiative](#)

Scotland's FinTech cluster is the largest in the UK outside London, with the number of active companies in the sector increasing by more than 50% in the last two years. It aims to grow its economic value to more than £2bn and create up to 30,000 extra jobs over ten years.<sup>205</sup> FinTech is the new application of technologies to deliver financial products and services which enable better economic, social and environmental outcomes. FinTech Scotland's Research and Innovation Map identifies a range of opportunities, such as offering products and services to support workforces which experience uneven employment income, and to increase access to credit and lending for SMEs, facilitating faster lending decisions and new ways to repay.<sup>206</sup>

FinTech has the capability to create simple and standardised products and tools which equip SMEs to track and report on their own ESG performance and that of their supply chain. This will help SMEs to fulfil ESG criteria and access the capital which is available to grow and transition to resource efficient, Net Zero business models.<sup>207</sup> It will also inform investors and consumers on ESG performance, increasing visibility about key opportunities and impact.<sup>208</sup>

We welcome these plans and believe that there are further steps which can be taken to harness the power of the UN SDGs and ESG to nurture business purpose in Scotland. We would like more businesses to adopt and more consumers to expect ESG reporting by businesses in Scotland.

Business purpose needs to be supported by changes in accounting systems to measure and report on the full range of businesses' outcomes and impacts, including on people and the planet.<sup>209</sup> This will help purpose-led businesses to authentically distinguish themselves. There is an opportunity for the professional services sector in Scotland to help design these systems.

We have heard in our discussions that the financial products which are in the market at present do not

meet the needs of many purposeful businesses and social enterprises. There is a lack of diversity in the products and they are expected to fit those which are available. We believe that Scotland's financial services industry, supported by the UK and Scottish Governments and their publicly-owned development banks, should work with purposeful businesses and social enterprises to co-design a wider diversity of financial products which will help to increase the flow of investment capital to them at all stages of their growth.

We recommend that the industry works with investment advisory and readiness services to:

- Support an increase in demand for investment from SMEs and social enterprises
- Provide evidence to companies of the benefits to businesses of business purpose
- Advise companies on how to adopt purpose and attract purpose-driven investment
- Lead on a 'quality assurance' measure for purpose-led finance

Another option would be blended fund models which bring together public, commercial and philanthropic sources to achieve a measurable social impact. More businesses might also set up impact investment funds, increase the role of social enterprises in their supply chains and/or develop purpose-led partnerships with social enterprises and voluntary organisations.

This links to issues of ownership and stewardship of businesses by investors. We believe that adoption of structures closely associated with the delivery of business purpose should be encouraged and facilitated by government e.g. Profit-for-Purpose businesses, co-operatives/employee-owned businesses, Community Interest Companies, social enterprises or structures like the steward-owned companies in Europe that are six times more likely to survive over 40 years than conventional companies.<sup>210</sup> A greater diversity of ownership structures in the economy would increase its resilience.

205 [Scotland-FinTech-Roadmap-March-2022-lowres.pdf \(fintechscotland.com\)](#)

206 [Scotland-FinTech-Roadmap-March-2022-lowres.pdf \(fintechscotland.com\)](#)

207 [Supporting-UK-economic-recovery-recapitalising-businesses-post-Covid-19-v2.pdf \(thecityuk.com\)](#)

208 [Scotland-FinTech-Roadmap-March-2022-lowres.pdf \(fintechscotland.com\)](#)

209 <https://www.thebritishacademy.ac.uk/documents/3462/Policy-and-Practice-for-Purposeful-Business-The-British-Academy.pdf>

210 [purposebooklet\\_en.pdf \(purpose-economy.org\)](#)

The UK Government should, as recommended by the Mirrlees Review <sup>211</sup>, equalise the tax treatment of equity and debt finance over time to encourage more small-scale equity investments. It should also promote longer-term shareholding, and informed and supportive investors. This would increase the availability of forms of funding which businesses need. <sup>212</sup>

We believe that the UK Government should ensure that all new businesses are able to adopt a legal structure that best supports their purpose, and that businesses should be able to easily transition from one form of legal structure to another in the interests of maintaining and making progress with their purpose. The information and advice businesses need on legal structure options at key points in their development should also be widely accessible.

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211 Mirrlees Review – Institute For Fiscal Studies – IFS

212 [future-of-the-corporation-principles-purposeful-business.pdf](#) (thebritishacademy.ac.uk)



## How to empower employees to drive purpose

*"The longer I study generations in the workplace, the more similarities I find in what people want out of work. Those fundamentals—meaning, purpose, good leaders, professional growth—don't change. What changes is how each generation expresses these needs and what expectations we have about our employers' fulfilment of them."*

Lindsay Pollak, *The Remix – How to Lead and Succeed in the Multigenerational Workplace*

### Introduction

When people and businesses think about business purpose, they often focus on employer-employee relationships, especially how people drive purpose in businesses and how businesses treat their people. We look in this section at workforce and skills issues for businesses in Scotland, and opportunities to deliver on these priorities for businesses and people through developments in fair work practices, skills training and business education.

### Fair Work

People in Scotland are more likely to have at least a college or university qualification than people in any country in the EU and the share of people in Scotland with low or no qualifications has fallen over the last decade <sup>213</sup>. People of working age in Scotland are also more likely to be employed <sup>214</sup> than the EU average <sup>215</sup>. However, growth in productivity – what the Scottish economy produces per hour worked – has been weak since the financial crisis of 2007-08 and it continues to lag around 20% below top performing countries in the OECD. <sup>216</sup>

The workplace is where peoples' skills and attributes are applied to create value and drive productivity. The way work is designed by employers is crucial to how

well they are harnessed.

A sense of purpose is important to people and many people look for purpose in their jobs as a way to bring meaning to their work and understand the contributions they are making. McKinsey has found that people who say that they are "living their purpose" at work are four times more likely to report higher engagement levels. They are also more productive and outperform peers, and are more resilient in times of uncertainty and recover more quickly. <sup>217</sup>

Businesses which connect their purpose with the individual purposes of their employees are more profitable. <sup>218</sup> Employees who are fulfilling their sense of purpose at work are five times more likely to report increased feelings of well-being, and live healthier and longer lives. <sup>219</sup>

People of all ages are more engaged and productive in their jobs when their personal motivations are aligned with the motivations of the business in which they work. A positive, relatable business purpose fosters engagement, which will help people and businesses to develop and put into action the attitudes and behaviours needed in a changing workplace – such as flexibility, adaptability, resilience, collaboration, entrepreneurship and creativity.

Employees are the greatest asset of any business and key stakeholders for business purpose. They have an essential role in developing and delivering a business's purpose and should share in the benefits of its success, including investment in their skills, well-being and pay.

A strong sense in a workforce of fairness, camaraderie, personal development opportunities, empowerment and participation in decisions that touch their life is a source of business competitiveness. Research for the Carnegie Trust UK shows that better job quality is linked to higher productivity. The relationship between

213 3. Challenges Facing Scotland's Economy across National Strategy Objectives – Scotland National Strategy for Economic Transformation: evidence paper – gov.scot ([www.gov.scot](http://www.gov.scot))

214 Economic participation | National Performance Framework

215 Employment rates – annual statistics – Statistics Explained ([europa.eu](http://europa.eu))

216 Scottish productivity statistics – latest update and longer-term trends | FAI ([fraserofallander.org](http://fraserofallander.org))

217 Help your employees find purpose--or watch them leave | McKinsey

218 Help your employees find purpose--or watch them leave | McKinsey

219 Igniting individual purpose | McKinsey

poor work and productivity is stronger still.<sup>220</sup> That employees perceive and experience an authentic relationship between a business purpose and their working lives via the quality of their jobs is key to these positive outcomes.

Yet many businesses do not engage their employees on business purpose. The survey of employees by McKinsey found that 89% of them want purpose in their lives and 70% said that their sense of purpose is largely defined by their work, including two-thirds of non-executive employees.

But two-thirds of employees (63%) said that they want their employer to provide more opportunity for purpose in their day-to-day work. There is a 'purpose gap' between senior and frontline staff. While 85% of executive and upper management employees said that they were living their purpose at work, only 15% of frontline managers and employees agreed.<sup>221</sup>

Employee voice – one of the five dimensions of Scotland's Fair Work Framework<sup>222</sup> – is key. When employers seek it out, listen and support staff participation in decision-making at work, employees are more likely to contribute creatively to the performance of the business<sup>223</sup>. However, formal opportunities for employees in the UK to participate in organisational decisions are low and have not increased.<sup>224</sup>

Scotland's Fair Work Convention reported in 2020 that its key indicator of employee voice – collective bargaining coverage – had improved over the past five years, but that there were significant variations in coverage between sectors and between the public sector (73%) and private sector (20%). It also suggested that the combination of job intensification for many key workers and isolation for homeworkers in COVID-19 pandemic could have impacted negatively on opportunities to exercise effective voice. Overall, it found limited progress in improving key fair work

indicators over the previous five years in workplace learning, average time spent in training and skills underutilisation.<sup>225</sup>

Businesses which do connect business purpose and employee purpose are, therefore, attractive employers who are able to recruit and retain the motivated talent that they need.

Businesses which deliver higher job quality are more likely to have employees involved in innovation, including radical innovations and (especially) innovations which are developed from learning and doing in work. This latter kind of innovation is particularly important across the business base to increase productivity, stay competitive and adapt to changing markets. Building blocks of fair work, such as job security, empowerment, and training and development, enable employees to innovate, with the results further improving job quality.<sup>226</sup>

Business purposes of solving problems provide a direct link between strategic investment in by businesses in skills and the effective utilisation of skills by employees. This leads to more engaged, committed and adaptable workers who identify challenges, solve problems, offer insights and ideas for business improvement, and unleash creativity and innovation.<sup>227</sup> Comparison between the UK and Finland, which consistently performs highly for business innovation, shows the link between problem-solving, employee autonomy, employee voice, and training and learning.<sup>228</sup>

220 Does good work have a positive effect on productivity? Research findings – Carnegie UK Trust

221 Help your employees find purpose--or watch them leave | McKinsey

222 The Fair Work Framework – The Fair Work Convention

223 can-good-work-solve-the-productivity-puzzle.pdf (thersa.org)

224 Microsoft Word – Findlay and Lindsay 2018 Review BMandWI mission FINAL.docx (strath.ac.uk)

225 Fair Work in Scotland Report – The Fair Work Convention

226 Microsoft Word – SCER FITwork Combined Years Report 2018 Final.docx (innovatingworks.org.uk)

227 Influencing Business Models and Workplace Innovation to deliver inclusive growth Findlay and Lindsay

228 <https://workplaceinnovation.eu/european-company-survey-2019-workplace-practices-unlocking-employee-potential/>

	UK	Finland
Employees who report their job includes problem-solving	19%	25%
Businesses with 'high complexity and autonomy workplaces'	10%	16%
SMEs with 'high complexity and autonomy workplaces'	4%	10%
Businesses operating a 'command & control structure'	31%	24%

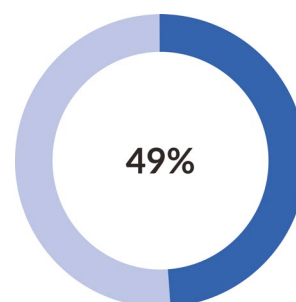
Purposeful business models, with a long-term perspective and a focus on delivering value and mutual gains for employees and other stakeholders, not just the maximisation of shareholder value, tend to invest more in their employees and promote greater employees voice and workplace practices.<sup>229</sup> Workers are motivated to invest their time in upskilling and reskilling.

Customers trust employees on the ground more than their company to provide information.<sup>230</sup> Engaged and motivated people are good advocates for a business's purpose and products. Our opinion poll found that people in Scotland (see 'What do people expect from businesses?') think that implementing key elements of fair work is the most important thing that businesses can do to secure public confidence and trust. Paying the real living wage as a minimum was clearly the highest priority for women and men, all ages and higher- and lower-skilled occupations, while providing job security for employees was the third highest.<sup>231</sup>

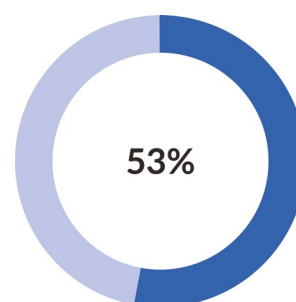
The CBI has found that businesses that care for the health and well-being of their employees inspire public confidence and trust, and that people want to buy from them.

### Share of people saying elements of good work influences their buying

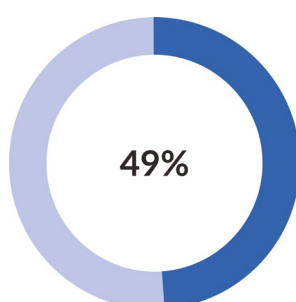
#### Listening to & valuing the contribution of employees



#### Offering training & development



#### Focus on health & wellbeing



CBI, Everyone's Business Reputation Trackers: Public Attitude Report 3, August 2019.<sup>232</sup>

We welcome the vision of the Fair Work Convention that "by 2025, people in Scotland will have a world-leading working life where fair work drives success, wellbeing and prosperity for individuals, businesses, organisations and society".<sup>233</sup> We support the Scottish Government's plan to progressively apply Fair Work

<sup>229</sup> Findlay\_etal\_PP\_2021\_Business\_models\_innovation\_employees\_experiences\_in\_the\_workplace.pdf (innovatingworks.org.uk)

<sup>230</sup> CBI\_report\_vFinal.pdf (workplaceinsight.net)

<sup>231</sup> Chapter 12 – Putting Purpose into Practice: The Economics of Mutuality

<sup>232</sup> CBI\_report\_vFinal.pdf (workplaceinsight.net)

<sup>233</sup> The Fair Work Convention

criteria to public sector contracts and grants, and the engagement of the Fair Work Convention in the development of sectoral strategies.<sup>234</sup>

There is, however, a need to substantially boost the businesses which are 'pulling through' fair work practices. This means giving more attention to the demand side in businesses. We believe that business purpose can provide a focus to increase opportunities for fulfilling work which drives sustainable growth, prosperity and well-being. In businesses, it can bind and give meaning to transient teams and tasks, stimulate upskilling and re-skilling for new roles and jobs, and guide development and adoption of new technologies and platforms in ways that benefit all workers. Across the economy, it will encourage more businesses to fulfil their corporate responsibilities to provide all their workers with good quality, fair work.

We recommend that businesses should develop and deliver their purpose through their people strategies by enabling employee voice, for example through forums, taskforces and workshops, purpose champions in the Executive team and workplace, and engagement of recognised trade unions.

While corporate governance systems differ across Europe, in many countries there is a statutory right to worker representation on boardrooms with decision-making power. This applies in countries with a two-tier supervisory and management board system, such as Germany, and countries with a unitary board system.<sup>235</sup>

In the UK there is no statutory right to worker representation on boardrooms, although some UK businesses, particularly cooperatives, have appointed worker representation on their Boards and in recent years this has been adopted by other businesses, for example First Group. Following a revision of the UK Corporate Governance Code in 2018, employee directors are a specified option for listed companies. In the longer-term, we believe that appointments by businesses of worker representation to their Boards should be the norm. This would help to provide a

worker voice in the corporate governance of business purpose.

Businesses should connect their business purpose to all stages of the employee journey, including recruitment and onboarding, feedback and performance management, training and development, rewards and promotion. Increasing diversity, equality and inclusion in all parts of their business can improve understanding how changing customer or societal expectations will impact the delivery of their business purpose, as well as their ability to meet them.

The benefits to businesses of adopting business purpose are a strong motivation to change, but government can also encourage it through fair work conditionality. In our view, a focus on promoting business purpose through public funding for digital adoption by businesses would be beneficial because this is a high priority for many businesses. We know that businesses across the base need to increase their use of a range of digital technologies to serve their customers and stay competitive, and that this influences both productivity and fair work. As a result, businesses need to develop their employees' digital skills, but fewer than one in three of businesses in Scotland (29%) are currently taking this action.<sup>236</sup>

The Scottish Government is launching a new Digital Productivity Fund to support business to adopt and successfully integrate technologies.<sup>237</sup> We recommend that consideration be given to asking all businesses to complete the free and easy-to-use online Fair Work Assessment tool offered by the Fair Work Convention in order to access this (and other) digital funding.

We have highlighted the business case for more businesses to act on pay fairness for their employees, particularly on low pay wherever possible, including reputational gains with customers, better performance by employees, and increased staff recruitment and retention.

Many businesses face barriers in changing their business models and working practices due to the long-term structure of their sectors, prevailing difficult economic conditions and/or rising costs, including

234 4. Productive Businesses and Regions – Scotland's National Strategy for Economic Transformation – gov.scot (www.gov.scot)

235 Workers' voice in corporate governance: A European perspective - TUC

236 Poverty-Inequality-Commission-Good-jobs-in-Scotland-report.pdf (povertyinequality.scot)

237 4. Productive Businesses and Regions – Scotland's National Strategy for Economic Transformation – gov.scot (www.gov.scot)



those caused by new government policies which increase the cost of doing business. The vast majority of employers support the intention to raise wages and tackle low pay but must be confident about their ability to afford them over time to maintain commercial viability and jobs. Basic pay is part of a package of terms and conditions offered by businesses, and there is concern that employers may erode other factors that employees value when increasing basic pay. Improving the predictability of their working hours may be as important for many people who experience in-work poverty <sup>238</sup>

Businesses should be guided by their business purpose in decisions about pay, conditions and employment practices. Businesses should take responsibility for their wider impacts and incorporate this into their supplier policy. They should ensure that they fully account for the costs to suppliers of raising wages and tackling low pay in the value of all their contracts, and offer advice, especially to SMEs, on achieving this objective.

### **Skills Development and Business Education**

In our discussions with businesses of all sizes, sectors and structures, a successful business purpose agenda must have at its heart people with the skills, motivations, connections and opportunities to propel existing and new businesses on their business purpose journeys.

We believe that in purposeful businesses the influence from Board/senior management and employees flows both ways and is mutually reinforcing. Thus, there is a need to focus on skills development across leaders, managers and workers to nurture more purposeful businesses.

We recommend that the UK Government should make business purpose a mandatory element of the appointment, training and professional development of new directors and, especially, non-executive directors in larger businesses in the UK Corporate Governance Code. This will embed business purpose in businesses' strategies and decision-making, and ensure

independent oversight of, and constructive challenge to, managements on implementation.

We also recommend that professional development organisations and training and learning providers should work with employers and Skills Development Scotland to integrate the business benefits and practices associated with business purpose into their qualifications.

Businesses of different sizes and structures, and voluntary sector organisations, have lots that they can contribute to and learn from each other through a range of models for cooperation. We recommend that more businesses and voluntary organisations create business-to-business (e.g. an established business and a purposeful business start-up) or business-to-social enterprise talent partnerships. These could include non-executive directors, mentors or placements, which would help smaller organisations gain greater experience and skills.

Business purpose helps to forge long-term partnerships with colleges, universities and other providers of apprenticeships and vocational training which can improve articulation of and increase investment in developing the skills employers will need to solve problems profitably.

We know that business purpose has significance for many in the Millennial generation of entrepreneurs and business leaders, and that it will be even more meaningful for the next generation. Business education has an important role to play in equipping them with the capabilities to 'design in' purpose into new business formation and new business strategies.

In recent years, a growing group of international business schools have shifted the focus of their teaching from how to maximise financial returns for shareholders towards responsible business management and ESG issues. Business schools at ten Scottish universities are engaging in the Principles of Responsible Management Education initiative, a UN supported network of business and management schools sharing best practice in promoting responsible management education and awareness of the UN

Sustainable Development Goals.<sup>239</sup>

We recommend that business schools in Scotland should accelerate this progress, and fully integrate business purpose across learning and research. An ongoing review of the Teaching of Fair Work in Scottish Business Schools<sup>240</sup> has found that while (to varying degrees) Fair Work practices do form part of their taught curricula, the practices are not explicit in the skills and knowledge that students are expected to demonstrate on completion of most modules.

Businesses need their rising generation of leaders and managers to learn about the business benefits and practices associated with business purpose now, and know how they can realise them for businesses and employees. This should start with business degrees and courses, including the industry-facing, shorter courses which Scotland's education sector are developing, then be extended to other university and college degrees and courses (e.g. law, engineering etc).

Businesses also need academics to build and communicate research evidence for the positive relationship between business purpose and profits, and work to develop a clear, coherent and practical framework that more firms can adopt and use in their performance dashboards. We encourage the Scottish Funding Council, business schools and businesses to invest in research programmes and projects on business purpose, which include pathways to diffuse the knowledge generated on good practices in ways that businesses will access and adopt it.

We believe that business schools in Scotland should aim to be among the world-leaders in business purpose and demonstrate this in relevant international accreditation frameworks.

Business education in Scandinavian countries and the Netherlands has long incorporated ESG. The Nordic Leadership Model is highly regarded for the way in which employee voice is embedded at every level of decision-making and employees take the initiative with their work. The countries are among the best performers for productivity and wellbeing (see the 'Why business purpose matters' section). We

recommend that Scotland's business schools should explore international partnerships to mainstream teaching of business purpose, ESG and fair working practices.

We have described the growth of business models such as Profit-for-Purpose which closely connect profit creation by businesses with investment in a social purpose. We have also set out evidence of the relationship between business models (such as steward-ownership and employee ownership), business purpose, and outcomes including higher productivity and fair work.<sup>241</sup> We recommend that business schools in Scotland should ensure that their curricula include more teaching on the diversity of potential forms of ownership for businesses.

We believe that creating new opportunities to collaborate on real-world challenges would be a powerful way to unlock learning-by-doing on business purpose in education and workforces and increase social innovation. They can also break down barriers between education, entrepreneurship and employment, and between the private, public and voluntary sectors.

As proposed at our workshops with young people and the Edinburgh Futures Institute, we believe that the Scottish Government should task its CivTech Scotland tech accelerator programme with launching a challenge for the tech sector to create a Purpose Challenge Bank into which businesses, public bodies, third sector organisations, and community and voluntary groups can deposit real world, purpose-driven challenges, and invite partners and stakeholders, including young learners, to help solve them. Participation by young people might be further incentivised if the Scottish Government, businesses, and business schools and colleges offer small rewards or prizes for the most socially impactful of these solutions.

We would like schools and businesses to embed business purpose alongside social enterprise as an experience and outcome of learning for school-level enterprise programmes. We need all young people to have the skills, commitment and sense of ownership as well as the opportunity to put business purpose into

<sup>239</sup> <https://www.unprme.org/>

<sup>240</sup> IER Research project – Review of the Teaching of Fair Work in Scottish Business Schools ([warwick.ac.uk](http://warwick.ac.uk))

<sup>241</sup> [purposebooklet\\_en.pdf](http://purposebooklet_en.pdf) ([purpose-economy.org](http://purpose-economy.org))

practice at every stage of their working lives.

Leadership and international excellence in business purpose in businesses and business education in Scotland will attract mobile global talent to work and study in Scotland. We recommend that this ambition and potential opportunities are highlighted by employers and educational institutions, and in the Scottish Government's new Talent Attraction programme and in the #ScotlandISNow joint international marketing campaign by the Scottish Government, VisitScotland, Scottish Development International and Universities Scotland.

The attraction of experienced leaders, managers and entrepreneurs to Scotland who want to use their skills to profitably solve problems of people and planet will strengthen leadership and management skills, and enable more start-ups, in sectors such as technology, to scale. This will mature Scotland's business purpose ecosystem to drive economic transformation.

# ROUTE MAP

## How to track progress on Scotland's purpose journey

The evidence that the Commission has gathered from the voices of businesses and views of people in Scotland has been uppermost in our thinking as we have developed this report.

We have described Scotland's purpose ecosystem as "pre-tipping point" and highlighted that business purpose is a journey for all businesses. In our work, we have developed the evidence base for business purpose in Scotland, but the data available needs to be further improved to monitor and communicate to businesses and stakeholders the progress which is being made, and guide the development and implementation of business support, incentives and policies.

We recommend that the Scottish Government should create a Scottish Purposeful Business Maturity Index by adapting the model of its Digital Maturity Index for business purpose.

We recommend that the Scottish Purposeful Business Maturity Index should measure and segment Scottish businesses into levels of purpose maturity every 3 years. The analysis should include data on structures and sizes of businesses, and sectors, and opportunities to develop business purpose in each segment; and the data should also be made available for external analysis. The results should inform policies and programmes. A baseline should be created this year to track the impact of scaled-up initiatives which support businesses with purpose.

Participating businesses should be given an output which benchmarks their position against other businesses and be directed to advice and support that would help them to make progress.

As we have set out, public opinion is driving business purpose. Our own poll of people in Scotland has informed our work. We believe that the tracking of data on public opinion in Scotland will motivate and guide more businesses on their business purpose journey, and check whether the actions of businesses, government and partners are making a positive social impact, increasing trust in businesses and maintaining businesses' social licence to operate. We recommend that the Scottish Government should also survey public opinion on business purpose and report the results in the Scottish Purposeful Business Maturity Index. The Scottish Government can use these results to track impact and engage consumers in a conversation on why and how they can influence businesses to become more purposeful.

The principles of business purpose are timeless, but the business and social contexts for their delivery rapidly changes. This report is therefore a living document. In the next section we recommend our key shorter and longer-term actions. Evidence from the Scottish Purposeful Business Maturity Index will help to implement them effectively.



# Vision

***“By 2030, all businesses in Scotland will have become purposeful businesses which profit from finding solutions for people and planet.”***

## OUR RECOMMENDATIONS

We have made a range of recommendations in the preceding sections of this report. In this section, we highlight our priority actions. These are for businesses, education and training organisations, and the UK, Scottish and Local Governments. Delivery of the actions will require co-design and co-delivery by businesses, employees, governments, suppliers, communities and stakeholders. We need to commit as a matter of urgency to the collaboration and innovation required to achieve this.

As we are aiming for a change in the ecosystem for business purpose in Scotland, the actions are a package. If we implement a single action this helps, but to make a significant difference we need to deliver them all. Some will be steps we can take now to inject pace and some will require longer planning, but we should implement the full plan with firm milestones to make a transformational change.

Developing an ecosystem filled with purposeful businesses is a journey. We have suggested timescales for implementation, but our message is that we will reap greater benefits from driving progress forward now.

## ACTIONS FOR BUSINESSES TO LEAD

### 1. Businesses should define, communicate and measure their business purpose

How should the action be delivered?	Owners	Timescales
<p>Within the framework for a new definition of the acceptable purpose of business to be “to find profitable solutions to the problems of people and planet, and not to profit from creating problems for either of them”, all businesses should define why they exist, what they do and how they make a positive impact.</p> <p>This purpose should be appropriate for the size and market of the business e.g.:</p> <ul style="list-style-type: none"> <li>• Some companies (especially larger ones) may define their role in relation to customers, society or the world</li> <li>• Smaller businesses may define their role in improving the lives of their customers and communities.</li> </ul> <p>Businesses should embed their purpose in their strategy and use it to drive better performance.</p>	Businesses	Immediate/ shorter-term
<p>All businesses should voluntarily report on the full value they create – their non-financial and financial impacts, and their progress – simply, consistently and transparently to their employees, investors, customers and stakeholders.</p> <p>Businesses should use the tools that are available to help them measure, manage and improve their impact performance. Their reports should be proportionate to the size and impacts of their businesses and should include more data as their business makes progress on their purpose journey. The investor and professional services industries should lead the way in making the reporting standardised and easy to achieve.</p>	Businesses  Investors  Professional services firms	Longer-term

## 2. Businesses should develop and deliver their purpose through their people strategies

How should the action be delivered?	Owners	Timescales
<p>Businesses should develop their business purpose with their employees by enabling employee voice, and make work a fulfilling part of their lives e.g. through:</p> <ul style="list-style-type: none"> <li>• Employee forums and taskforces</li> <li>• Purposeful business champions in the Executive team and workplace</li> <li>• Purposeful business workshops</li> <li>• Engagement of recognised trade unions</li> </ul>	<p>Businesses</p> <p>Employee representatives e.g. trade unions</p>	Shorter-term
<p>Businesses should connect their business purpose to all stages of the employee journey e.g.:</p> <ul style="list-style-type: none"> <li>• Recruitment and onboarding</li> <li>• Feedback and performance management</li> <li>• Training and development</li> <li>• Rewards and promotion</li> </ul> <p>Businesses should take action to increase diversity, equality and inclusion in all parts of their business which evidence suggests will improve their business performance and broaden their awareness of changing customer/societal expectations.</p>	Businesses	Longer-term
<p>Businesses should be guided by their business purpose in decisions about pay, conditions and employment practices. Businesses should incorporate this into their supplier engagement and communications to take responsibility for their wider impacts.</p>	<p>Businesses</p> <p>Employee representatives e.g. trade unions</p>	Immediate and ongoing
<p>Businesses should appoint worker representation to their Boards in the longer-term. This would help to provide a worker voice in the corporate governance of its business purpose.</p>	<p>Businesses</p> <p>Employee representatives e.g. trade unions</p>	Longer-term

### 3. Scotland's financial services businesses should increase investment in purposeful businesses by establishing a world-leading ESG investment hub

How should the action be delivered?	Owners	Timescales
<p>Scotland's financial services industry – for example businesses in activities such as asset management – should widen the diversity of financial products for and increase the flow of investment capital to purposeful businesses and social enterprises at all stages of their growth. They should find joint solutions to fill gaps for longer-term, higher risk purpose investments.</p> <p>The industry should work with investment advisory and readiness services to:</p> <ul style="list-style-type: none"> <li>• Support an increase in demand for investment from SMEs and social enterprises</li> <li>• Provide evidence to companies of the benefits to businesses of developing business purpose in closer alignment to the definition set out in this report</li> <li>• Advise companies on how to adopt purpose and attract purpose-driven investment</li> <li>• Lead on a 'quality assurance' measure for purpose-led finance</li> </ul>	Scottish Financial Enterprise	Ongoing
Scotland's FinTech sector should prioritise the development of services and applications that SMEs need to grow and transition to Net Zero, as proposed in FinTech Scotland's Research & Innovation Roadmap.	FinTech Scotland	2021–2031
As set out in Scotland's Financial Services Strategy, Scotland's financial services industry, supported by the Scottish and UK Governments, should develop and implement further actions which position Scotland as a leading hub across the three pillars of ESG investment – as the Global Ethical Finance Initiative's Scottish Taskforce for Green and Sustainable Financial Services is exploring.	<p>Scottish Financial Enterprise</p> <p>Scottish Taskforce for Green and Sustainable Financial Services</p>	2022–2025
The British Business Bank should deliver on its new mission to drive sustainable growth and prosperity across the UK, and to enable the transition to a net zero economy, by targeting finance to purposeful businesses and reducing regional imbalances in its finance programmes – including through its new fund for Scottish businesses and its Regional Angels Programme.	British Business Bank	2022–2025



<p>The Scottish Government should close gaps in the range of financial products available to scale-up investment in the creation and sustainable growth of purpose-led businesses and social enterprises.</p> <p>The Scottish National Investment Bank should deliver on its plan to target supply of patient capital to purposeful businesses. The Scottish Government should increase its capitalisation if the public funding commitment of £2bn over 10 years and the Bank's partnerships with private capital prove insufficient to deliver its missions and support more purposeful businesses.</p>	Scottish Government	Immediate and longer-term
	Scottish National Investment Bank	
	Social Investment Scotland	
	Firstport	

#### 4. **Businesses should form purpose-driven private, public or third sector partnerships to share learnings, influence change and increase impacts**

How should the action be delivered?	Owners	Timescales
Businesses should embed and encourage business purpose in their value chains, and the joint creation of economic, social and environmental value. They should specify tenders in ways which allow for innovative bids and larger buyers should work with suppliers on supplier development programmes which include a focus on implementing purposeful business through long-term partnerships and fair value chain relationships. The Chartered Institute of Procurement & Supply should assist businesses with consistent adoption in their award criteria and assessments.	Businesses  Chartered Institute of Procurement & Supply	Ongoing
Businesses, public bodies and the third sector should agree a programme of action to create an increased number of active purpose-driven partnerships. As a first step, representative organisations should convene a summit. These partnerships may include collaboration on shared goals and missions, new funds, talent exchange programmes, communities of practice, and participation by social enterprises in business value chains.	Business representative organisations  Public bodies  Scottish Council for Voluntary Organisations  Social Enterprise Scotland	2022–2023

<p>Businesses and government should reset and develop new public-private partnership models based on the enhanced potential through business purpose to align objectives and be trusted partners. These collaborative partnerships would find solutions to deliver objectives e.g. those in the <i>Scottish Government's National Strategy for Economic Transformation</i> and the UK Government's <i>Levelling Up the United Kingdom</i> White Paper on Net Zero, inequalities, opportunity and social mobility, the future of work, and new technologies. Purposeful businesses profitably solving problems and not profiting from producing problems should be the basis for resolving the conflicting objectives of profit in the private sector and social benefit in the public sector which have caused difficulties and failures of previous models.</p>	<p>Businesses</p> <p>Scottish Government</p> <p>UK Government</p> <p>Local government</p>	
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**5. Businesses should work with government and stakeholders to inform and mobilise customer and societal expectations of business purpose**

How should the action be delivered?	Owners	Timescales
<p>Businesses should positively influence their customers, communities and society to support business purpose and a sustainable and inclusive society, recognising that many people want more business leadership and engagement on societal issues and believe that solving societal problems is a strength of business. Purposeful businesses should develop their role as trusted brokers who encourage participation by their customers in initiatives with positive social and environmental impact.</p> <p>Business should in their product, service and company information, marketing and communications give people the facts they need to make positive choices. Businesses can connect their business purpose with sales by measuring how well they help their customers to achieve their personal purposes through Customer Performance Indicators.</p>	<p>Businesses</p>	

<p>Businesses should participate in and promote their commitment to action-oriented business purpose partnerships with stakeholders and government. They should be open and transparent about their successes, challenges, and failures, and proactively work with stakeholders to make progress.</p> <p>Stakeholders and government should work constructively with businesses to improve their economic, social and environmental impact, offering challenge when necessary, while also recognising progress and plans that will make improvements.</p>	<p>Businesses</p> <p>Stakeholders</p> <p>Government</p>	
<p>The Scottish Government should work with Consumer Scotland, Citizens Advice Scotland and the Competition and Markets Authority to empower consumers by increasing their access to trustworthy information. Making available complementary guidance for businesses and consumers on business purpose would facilitate business and customer engagement. Consumer Scotland and Citizens Advice Scotland should advocate consumer voice on business purpose, and highlight positive impact as well as tackling issues of consumer harm.</p> <p>The Scottish Government should also support more collective purchasing and collaborative consumption of sustainable goods and services.</p> <p>The Scottish Government and the public sector should be exemplars for the sharing of open, transparent and accessible information about their performance against their purpose.</p>	<p>Scottish Government</p> <p>Consumer Scotland</p> <p>Citizens Advice Scotland</p> <p>Competition and Markets Authority</p> <p>Stakeholders</p>	Ongoing
<p>The Scottish Government should work with financial institutions to encourage the many people who are beneficiaries from financial investments and savings to influence the funds to invest in purposeful businesses, stewardship and long-term impact, rather than short-term returns.</p>	<p>Scottish Government</p> <p>Financial institutions</p>	Ongoing
<p>Businesses, the Scottish Government and local government should consider if models such as Living Wage Week and Small Business Saturday, and the creation of 'Scotland Loves Local' to enable consumers to spend online in local high streets, could be adapted to celebrate and promote purposeful businesses.</p>	<p>Businesses</p> <p>Scottish Government</p>	2023

The Scottish Government should task its CivTech Scotland programme with launching a challenge for the tech sector to create a Purpose Challenge Bank into which businesses, public bodies, third sector organisations, and community and voluntary groups can deposit real world challenges, and invite partners and stakeholders, including young learners, to help solve them.	CivTech Scotland	2023
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## ACTION FOR EDUCATION AND TRAINING ORGANISATIONS TO LEAD

### 6. Universities, colleges and professional bodies should make business purpose a mandatory learning outcome in business education and training

How should the action be delivered?	Owners	Timescales
Universities, colleges, professional development organisations, and education and skills agencies should embed teaching of the business benefits and practices associated with business purpose (e.g. Fair Work) as learning outcomes in education, training and professional development curricula. This should start with business school degrees and courses, but be extended to other university and college degrees and courses (e.g. law, engineering etc).	Scottish network of Deans of Business Schools College Principals' Group Professional Development Organisations Scottish Funding Council Skills Development Scotland	From academic year 2023-24
Business schools should ensure that their curricula include more teaching on the diversity of potential forms of ownership for businesses.	Scottish network of Deans of Business Schools	From academic year 2023-24
Schools and businesses should embed business purpose as an experience and outcome of learning for school-level enterprise programmes.	Education authorities Developing the Young Workforce Scottish Qualifications Authority/Qualifications Scotland Education Scotland replacement agency	Ongoing



## ACTIONS FOR THE UK GOVERNMENT TO LEAD

### 7. The UK Government should amend company law and reporting to require businesses to state and report on their business purpose

How should the action be delivered?	Owners	Timescales
The UK Government should change the guidance for section 172 (2) of the 2006 Companies Act to make it clear that businesses can use existing legislation to commit to their purpose in their article of associations.	UK Government	Short-term
The UK Government should amend Section 172 of the Companies Act to require companies to state their purpose in their article of associations and operate in a manner that benefits their stakeholders, including workers, customers, communities and the environment, while seeking to deliver profits for shareholders. This change should be implemented through the legislation proposed by the Better Business Act coalition.	UK Government Better Business Act coalition	Longer-term
The UK Government should amend Section 172 of the Companies Act to change the focus of directors' duty from "to promote the success of the company" to a duty "to advance the purpose of the company", as proposed in the Better Business Act coalition's draft legislation. Business purpose should be made a mandatory element of professional development and promotion for Board members and decision-makers.	UK Government Better Business Act coalition	Longer-term
The UK Government and the Financial Reporting Council should amend company reporting requirements to ensure that larger businesses include information on non-financial measures, such as impacts on and investment in workforces, society and the environment. This would follow the mandatory climate-related financial disclosures that are required of companies in their financial reports from this financial year.	UK Government Financial Reporting Council	Longer-term

## 8. The UK Government should encourage and make it easier for new and existing businesses to adopt purpose-driven business structures

How should the action be delivered?	Owners	Timescales
The UK Government should ensure that all new businesses can adopt a legal structure that best supports their purpose, and that businesses are able to transition from one form of legal structure to another in the interests of maintaining and making progress with their purpose.	UK Government	Ongoing
<p>The UK Government should work with financial institutions to increase understanding and introduce new mechanisms to increase investment and lending in employee-owned businesses.</p> <p>The UK Government should also remove tax obstacles for owner shareholders and employees to transition businesses to employee ownership (whether in whole or part).</p>	<p>UK Government</p> <p>Employee Ownership Association</p>	2022–2023
Co-operative Development Scotland should make information and advice widely accessible for businesses on their legal structure options at key points in their development, including cooperative companies, limited/community interest companies and other inclusive models. The Industry Leadership Group for employee-owned businesses, Scotland for EO, should deliver its target to increase the number of employee-owned businesses from around 100 in 2018 to 500 in 2030.	<p>Co-operative Development Scotland</p> <p>Scotland for EO</p>	2022–2030

## 9. The UK Government should produce a Tax Framework for Purposeful Business which incentivises purposeful business models and practices

How should the action be delivered?	Owners	Timescales
<p>The UK Government should produce a framework with existing incentives for purposeful business and social impact investors (e.g. the Enterprise Investment Scheme, the Seed Enterprise Investment Scheme, the Social Investment Tax Relief etc) and reformed or new incentives. This should include a further extension to or the replacement of the Social Investment Tax Relief when it ends in 2023. The UK Government should work with businesses to develop options for its planned reforms to R&amp;D tax incentives and capital allowances.</p> <p>All incentives should be simple, efficient, effective and transparent, delivering additional social and environmental benefits, in order to mitigate any reduced revenues for public services. Businesses and investors should use tax incentives to drive business purpose and positive impact, and all businesses should be open and transparent about paying the right levels of tax.</p>	HM Treasury	2022-2023
<p>The UK Government should also review tax options to ensure that businesses with socially and environmentally responsible practices and products are competing on a level-playing field with other businesses, and to disincentivise behaviours by businesses which have negative results.</p>	HM Treasury	Ongoing
<p>The Scottish Government should explore how its tax policies could incentivise purposeful business models, and socially and environmentally responsible business practices and products.</p>	Scottish Government	Longer-term

## ACTIONS FOR THE SCOTTISH GOVERNMENT TO LEAD

### 10. The Scottish Government should mainstream and scale-up public and private sector business support for business purpose

How should the action be delivered?	Owners	Timescales
Scotland's enterprise agencies and Business Gateways, private sector professional advisers (e.g. professional services, banks), business representative organisations and business incubators and accelerators should provide quality advice and toolkits, business mentoring and peer-to-peer knowledge exchange on business purpose to all businesses in their networks. The Scottish Government should fund delivery by a purposeful business network or organisation of training on business purpose to groups of public and private sector business advisers.	Scottish Government  NSET Delivery Board	2022–2025
The Scottish Government should determine the effectiveness of initiatives which support businesses with their purpose, and target its funding on the one most capable of scaling and joining-up their support at pace to achieve agreed targets to support far more businesses. Business representative organisations should encourage businesses in their networks to participate in this initiative in order to support them with developing their business purpose.	Scottish Government	2022–2025
<p>The Scottish Government should reform the values-based Scottish Business Pledge to promote and support a Business Purpose journey rather than be a one-off commitment. The Scottish Government should also explore whether other public sector values-based pledges, commitments, kitemarks etc could be made more consistent or consolidated with the Pledge.</p> <p>The Scottish Government should aim to increase the benefits to businesses of making the Pledge and connect Pledge-making businesses. Business representative organisations and businesses should promote the reformed Pledge to their networks and value chains.</p>	Scottish Government  Business representative organisations	2022
The Scottish Government should create a Scottish Purposeful Business Maturity Index. This should measure and segment Scottish businesses into levels of purpose maturity every 3 years. It should be based on the elements of the reformed Scottish Business Pledge. The Scottish Government should at the same time survey and report on public opinion on business.	Scottish Government	2023



The Scottish Government should engage businesses with other stakeholders in the planned refresh of the National Performance Framework to inform the refresh, take advantage of the opportunity to align more businesses' KPIs with its outcomes, and form collaborative partnerships between the private, public and voluntary sectors around its key missions.	Scottish Government	2023
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## 11. The Scottish Government should make business purpose a golden thread in the National Strategy for Economic Transformation Delivery Plan

How should the action be delivered?	Owners	Timescales
<p>The National Strategy for Economic Transformation Delivery Board should adopt the proposed definition of business purpose in its Delivery Plan and embed it in all parts of its enterprise delivery programme, including:</p> <ul style="list-style-type: none"> <li>• Enterprise and skills agencies corporate strategies</li> <li>• Net Zero</li> <li>• Sector strategies and just transition plans, co-designed and co-developed with industry</li> <li>• Business Gateway strategies</li> <li>• Community Wealth Building</li> <li>• The extension of Fair Work First criteria to every type of grant, funding stream, and business support budget; and the range of public sector contracts to which it is applied</li> <li>• <i>Scotland's Vision for Trade</i> and support for trade missions</li> <li>• Implementation of the <i>Review of the Scottish Technology Ecosystem</i></li> <li>• <i>Scotland's AI Strategy</i></li> <li>• The forthcoming Scottish Innovation Strategy</li> <li>• Scottish Government review to significantly increase the numbers of social enterprises, employee-owned businesses and cooperatives</li> </ul>	<p>NSET Delivery Board</p> <p>Trade associations and business organisations</p> <p>Business Support Partnership</p> <p>Scottish Technology Ecosystem Review Advisory Board</p> <p>Scotland's AI Alliance etc</p>	2022
<p>The Scottish Government and the public sector should increase the weighting for and ensure delivery of long-term social value in public contracts e.g. in foundational sectors, social housing commissions or large contracts and sub-contracts e.g. Crown Estate Scotland's ScotWind offshore wind leasing projects.</p>	<p>Scottish Government</p> <p>Public Procurement Group</p>	Shorter-term
<p>The Scottish Government should ask businesses to complete a free and easy-to-use tool associated with business purpose, such as the Fair Work Assessment, as a mandatory part of their application process for the new Digital Productivity Fund, to engage more SMEs in business purpose. This should include an offer of follow-up help.</p>	<p>Scottish Government</p>	On introduction
<p>The Scottish Government should work with businesses and stakeholders to explore the creation of an international business purpose partnership or alliance through which policy and practice can be shared. They should also profile Scotland's capabilities in purposeful business practices, partnerships and problem-solving through its #ScotlandISNow international campaign.</p>	<p>Scottish Government</p> <p>Scottish Development International</p>	2022-2023

## ACTION FOR LOCAL GOVERNMENT TO LEAD

### 12. Local government should develop place-based networks to engage businesses in tackling local economic, social and environmental missions

How should the action be delivered?	Owners	Timescales
Scotland's local authorities, Regional Economic Partnerships and regional and local business networks should develop place-based groups for business purpose which engage businesses (including SMEs) and stakeholders in business purpose, and in tackling local economic, social and environmental missions. This would build on Edinburgh's recent launch of the city council-backed 'Business for Good' programme which is part of the global Cities+B movement, and on the success of Living Wage Places in expanding living wage accreditation by local employers. Local partners should share learnings and best practice in the creation and support of place-based business purpose networks with their peers in all other areas to accelerate progress and minimise missteps.	Local authorities  Regional Economic Partnerships  Regional and local business networks  Education institutions	Shorter-term
City region and regional growth deal boards should leverage business purpose through their investment programmes to improve their regions' economies in the long-term.	City region and regional growth deal boards	Ongoing









# CONCLUSION:

# NOW IS THE TIME FOR PURPOSE

In this report, we have taken an evidence-based approach to:

- The business benefits of purpose
- Actions businesses and stakeholders can take to drive purpose in businesses

The evidence shows that businesses and people can expect positive outcomes that will make a material difference to businesses' profits, people in Scotland and globally, and our planet.

Businesses will be able to increase customer engagement, loyalty and advocacy. There will be a growing market for higher quality products and services offering incentives to move up the value chain and innovate responsibly to meet demand. This will include exports to socially and environmentally conscious individual, business and government consumers globally.

Businesses will unleash empowered and motivated employees who will propel productivity. Talent will be attracted, retained, developed and challenged to fulfil their own sense of purpose in work. Leaders and managers will have a strong focus and buy-in of investors and workers needed to execute long-term business strategy and maintain business resilience.

Businesses will be more attractive for new and more patient sources of capital to finance their growth, including ESG investment. Business-to-business and government-to-business value chain relationships will be deepened with revenues more fairly shared across them.

Businesses will strengthen their engagement with stakeholders including communities, non-governmental organisations and government at all levels. This will increase public trust and support for businesses, which will help to protect their social licences to operate.

There will be better outcomes for people and planet. Businesses will be delivery partners for Scotland's National Performance Framework and the UN SDGs. There will be a greater focus on improving peoples' wellbeing inside and outside of work. Wealth generated by business activity will be shared more fairly among workforces and across society, reducing poverty and increasing social inclusion and cohesion. The national, local and civil institutions which underpin society will be replenished. Businesses and workforces in carbon-intensive industries will make just transitions to a Net Zero economy. Global trade will be strengthened by fair and climate-friendly trade and sustainable development in developing countries.

Transformational change does not happen overnight which is why we urge business, government and stakeholders to accept our actions in full and develop implementation plans as a matter of urgency. The next steps on the business purpose journey are for businesses to lead. Collaboration will be key to progress and we must work together to create a brighter future for our businesses, colleagues, fellow citizens and world.

**Now is the time for purpose.**

# ANNEX

## BUSINESS PURPOSE RELATED NETWORKS AND INITIATIVES

### Scotland

Initiative	Summary
Can Do Collective	Community of over 100 enterprise support leaders and organisations to measure purpose and impact which is currently using the Scotland CAN B Impact Journey methodology to help their members measure impact.
Everyone's Edinburgh Business for Good programme	A city-level collaboration led by Edinburgh Chambers of Commerce, Scotland CAN B, the City of Edinburgh Council and Edinburgh Napier University to simplify how business owners can develop their purpose and contribution to creating a better future city. Offering advice, Advisors, Mentors, training, and a city network for business owners. Part of the global Cities+B movement.
Fair Work Agreements	Agreements between sectors and the Scottish Government which employers are encouraged to sign to demonstrate their fair work practices.
Living Wage Scotland	Accreditation scheme established by The Poverty Alliance for employers paying the real Living Wage, with a network of over 2400 employers in Scotland.
Business in the Community Scotland (part of UK-wide network)	Business-led membership organisation set up in 1982 to increase and support responsible businesses.
Scottish Business Pledge	Scottish Government initiative with 3 core and 7 additional values-led elements to build stronger businesses and fair work, signed by 820 businesses <sup>242</sup> .
Scotland CAN B	Scotland-wide programme providing training for businesses, business advisors, and other business intermediaries to equip them with practical tools to understand, measure, and manage their environmental, social and governance impact, using the 'Impact Journey' methodology. Launched in partnership between B Lab UK and the Scottish Government in 2018.
Scottish Net Zero Community	Community of businesses launched in partnership by the Scottish Business Network and CBN Expert, to support businesses, especially SMEs, with Net Zero.

Scottish Taskforce for Green and Sustainable Financial Services	Chaired by the Global Ethical Finance Initiative, with Scottish Government funding and Scottish Financial Enterprise support, to report on how Scotland can become a world-leading hub for climate finance.
WEAll Scotland (part of global Wellbeing Economy Alliance)	Global collaboration of 200 individuals, academics, organisations, governments, communities, and businesses to transform the economic system into one which delivers social justice on a healthy planet.
Zebras Unite (Scottish Chapter)	Scottish chapter of a global network of entrepreneurs, investors, funders and allies who are building companies that balance profit and purpose.

## UK

Initiative	Summary
B Corp UK (part of global network)	Community of companies certified to meet high standards of social and environmental performance, transparency and accountability.
Better Business Act coalition	Campaign by 1000+ companies, led by B Lab UK, to amend Section 172 of the Companies Act 2006 to establish a duty that aligns the interests of shareholders with wider society and the environment.
Blueprint for Better Business	Independent charity which works with business leaders to help businesses become purpose-led.
Enacting Purpose Initiative	Initiative to assist boards of companies and financial institutions to promote business purpose in their organisations and the companies in which they invest.
Good Business Charter	Independent not-for-profit organisation which accredits organisations which sign up to 10 components of responsible business practices.
The Purposeful Company Task Force	Group of member organisations which work to influence policy and share learnings on purpose.
Social Mobility Pledge	Coalition of 550 businesses globally and 50 universities which encourages organisations to put social mobility at the heart of their purpose.

## Global

Initiative	Summary
BSR	Organisation of sustainable business experts that works with 300 companies to help them build strategies and actions that deliver value for business and society.
B Team	International non-profit organisation led by 30 business and civic leaders with Regional B Team networks advocating for more human and climate centred business practices.
CDP	Non-profit organisation that works with more than 590 investors and runs the world's environmental disclosure system for companies, cities, states and regions.
Ceres	Non-profit network of investors, companies and NGOs that promotes the financial business case for sustainability to investors, companies, policy-makers and regulators.
CLG Europe	Cross-sectoral Corporate Leaders Group from European businesses who drive leadership on climate neutrality.
Climate Group	International non-profit organisation with a network of over 500 multinational businesses which support climate action.
Coalition for Inclusive Capitalism	Global non-profit organization that works with private, public and civic sector leaders to make capitalism inclusive and its benefits widely and equitably shared.
Economics of Mutuality	Independent foundation which includes not-for-profit research, education and advocacy, and for-profit consultancy, executive education and business services, on how companies can put purpose into practice.
Race to Net Zero	UN-supported coalition of cities, regions, businesses, investors and higher education institutions accrediting and supporting commitments to net zero by businesses.
SME Climate Hub	Includes SME Climate Hub, an initiative that supports SMEs to take climate action. Latest data shows that 323 Scottish businesses have committed themselves to Race to Net Zero.
UN Global Compact	Voluntary UN-facilitated initiative of 13,000 companies which take actions to support the UN SDGs.
We Mean Business Coalition	Global non-profit coalition that works with businesses and organisations to help them take action on climate change.
World Council for Sustainable Development	CEO-led community of over 200 of the businesses working collectively to accelerate the system transformations needed for a net-zero, nature positive, and more equitable future.







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