

# BUILDING A PURPOSEFUL ECONOMY

A Discussion Paper by the  
Economic Policy Group  
of Labour Business

With a Foreword by  
Jonathan Reynolds MP

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“Enabling the transition to a purpose-driven economy must be a mission for a pro-business, pro-worker Labour Party.”

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When our Party has been at its best it has had a powerful and persuasive narrative on the role of business in society. When we speak with conviction about the future of business, Labour wins elections. When we ignore or do down the potential of business, we lose elections.

Our Party has a historic opportunity at the next election to frame a vision for a new partnership with British business.

The good news for Labour and for our country is that a quiet revolution is taking place through our economy. A growing number of companies here and around the world have been joining a movement reaching for a new way to do business. These firms see their role as

protecting and promoting the interests of their workforce, local communities and environment as well as returning a profit to their shareholders. They are also reacting to clear public expectations that businesses act in a socially responsible way. These businesses also recognise that not only is it the right thing to operate in this way, it is also the best strategy for achieving sustainable profitability and long-term growth.

What is good for individual firms is good for the economy as a whole. As Chapter 1 of this pamphlet so persuasively articulates, where firms across the economy prioritise long-term wealth creation over short-term shareholder value, it can have profound effects on innovation and productivity. All this means that there is a huge prize for any country which is able to make the transition towards this purposeful economy faster than the others. It's a prize which will see better jobs on a decent wage, higher levels of investment across the country,

a just transition to Net Zero and lower levels of inequality.

But business leaders I speak to tell me that the institutions and rules of the UK economy do not always encourage such strategies. All too often, the environment in which our businesses operate is weighted against doing the right-thing. They reward short-term returns to shareholders over long-term wealth creation and shared prosperity. Take the system of business taxation, which currently punishes investment and entrepreneurship. That's why Rachel Reeves has pledged to scrap business rates and replace them with a new system of business taxation fit for the 21st century in a way which makes business taxation fairer, more transparent and more supportive of long-term investment and entrepreneurship.

Enabling the transition to a purpose-driven economy must be a mission for a pro-business, pro-worker Labour Party. In the same way that Britain led the first Industrial Revolution, we have a chance to lead this Business Revolution.

In this pamphlet Labour Business have

set out their case for why we should take on this task and what a future Labour Government could do to speed up the transition towards a purposeful economy.

Building a better economy is not easy and will require strong leadership.

I believe it requires leadership which only the Labour Party can provide.

I am grateful to Labour Business for developing the ideas in this pamphlet and contributing to this debate within our Party.

As we prepare for the next General Election, I believe that transitioning towards a purposeful economy is a vision that can bring the party and the country together.

*Jonathan Reynolds MP*  
**Shadow Secretary of State for Business, Energy and Industrial Strategy**

# INTRODUCTION

Labour Business (formerly known as the Labour Finance and Industry Group or LFIG) is the business membership organisation affiliated to the Labour Party, one of Labour's 21 affiliated socialist societies. Our members are Labour Party members who own, run and/or play leading roles in businesses – small, medium and large – across all sectors up and down the UK.

Labour Business was founded by Harold Wilson to enable the Labour Party to have a conversation with the business community. He believed that, if we don't listen to business, we can't expect business to listen to us. Founded in 1972, we are immensely proud to be celebrating our 50th anniversary this year.

Our mission now, as it was then, is to bust the myth that the Conservatives are the party of business, and to re-affirm the reality – which is that Labour is the natural party of business, a party which is unashamedly pro-business as well as pro-worker, a party which believes in a true partnership of government, businesses, workers and their trade unions.

This is not an academic exercise. It's about winning elections. And to win elections, we need to establish Labour's economic credibility, which means convincing voters that they can trust Labour on the economy. Without that, we simply will not win elections.

To help Labour establish its economic credibility, we are leading a conversation with businesses up and down the country – through roundtables, forums and events, both online and in person. Based on evidence collected from our business engagement

activity, we work with Labour Front Bench teams, MPs and Peers, Mayors, Councillors, members and policy forums in the Party to develop business policies for upcoming elections – local, regional and national.

This publication is one of the many outputs from that work. Its focus is on the bigger economic picture. What would the economy look like under a Labour Government? What does it mean to be a “pro-business” party? Post-Covid, does Labour want to see a return to “business as usual”? If not, what kind of businesses does Labour want to see more of as the economy emerges from the pandemic and confronts the worsening climate crisis? Crucially, what sorts of levers are available to Labour in government to encourage a new and more sustainable business model.

The broad answer to these questions which we argue for in this publication is that we want to see more businesses with a purpose – businesses which lift their eyes above a short-term focus on shareholder returns, toward a mission-driven business agenda which places the well-being of people, society and the planet at the heart of its mission. Together, these purposeful businesses will make up what we call a “purposeful economy.”

Just to be clear, our vision is not anti-profit. Without the profits generated by successful businesses, it is not possible to fund investment in innovation or to secure the tax revenues needed to pay for the public services which are the hallmark of a civilised society. Our vision is for profit with a purpose beyond simply filling shareholders' pockets.

And interestingly, as demonstrated in the pages that follow, all of the available data shows that businesses with a wider social or environmental purpose are actually more profitable than businesses with a narrower profit-driven purpose.

There are many models for this approach, and quietly the UK has become a world leader in the development of co-operatives, mutuals, community interest companies and other social enterprises, as well as B-Corps. We do not for a moment suggest that every business can or should become a social enterprise or B-Corp. What we do argue is that these purpose-driven businesses provide us with practical examples and plentiful data that all businesses can build upon.

This publication is one of a series of contributions by members of Labour Business from different policy perspectives on how Labour can promote the development of a new and better economy. It has been put together by the Economic Policy Group of Labour Business, one of our 9 policy groups, with input from other policy groups and members of our Executive Committee. We have also received expert advice from Social Enterprise UK, the membership body of social enterprises in the UK. We are very grateful to all of those who have given their time and expertise on an entirely voluntary basis.

We are especially grateful to Shadow Business Secretary Jonathan Reynolds MP, and members of his team, for offering feed-back on the text and providing a Foreword. We hasten to make it clear that the policies advocated in this document are not necessarily the policies of those who

contributed to it, or of the Labour Party. Labour Business is solely responsible for its content and for any errors within it.

As its subtitle makes clear, this publication is a “discussion paper,” not the last word, and we welcome comments on it. We hope it will help start the debate that needs to take place in the Labour family, in the business community, and in the wider electorate about how a future Labour Government can build a more purposeful economy which better serves our people, our society and our planet.

Only Labour can be trusted to deliver this vision, but we will have to fight for it.



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# EXECUTIVE SUMMARY

Labour has a strategic opportunity to take the mantle of the “party of business” from the Conservatives and become “the natural party of business” – a party which is pro-business as well as pro-worker. This pamphlet is part of a series of contributions by Labour Business from different policy perspectives on how Labour can achieve this. Labour needs to take the initiative and own this agenda, increasing its economic credibility with the public and securing voters’

permission to make the reforms needed to enable Britain to flourish over the coming decades and deliver Net Zero.

Backward looking ideas on the role of business in our economy, a Prime Minister who does not understand the way that business works and a Conservative Party which has run out of ideas on how to reform our economy provide Labour with a once-in-a-generation opportunity.

## To maximise this opportunity, Labour must do three things

**1 Firstly, Labour needs to give a clear message that a strong recovery from COVID needs to be an enterprise-led recovery.**

We need more and better business. This means that the State needs to be an enabler of growth, creating the policy environment as well as providing the investment and world-class public services necessary to drive sustainable economic growth. However, the decisions that businesses make at an individual level will have the biggest impact on whether we grow or succeed in the years ahead. Labour must be comfortable with business

leading our recovery within an enabling framework laid down by government.

**2 Secondly, Labour needs to lay out the scale of the challenge that we face.**

Under the Conservatives, we have seen consistently poor economic performance. We are now nearly a decade and a half away from the previous “high point” of British economic performance, under the last Labour Government. British business will need to achieve consistent levels of productivity growth, investment and wage growth that we have not seen in many

years. Returning to Conservative “business as usual” after COVID is simply not an option.

**3 Thirdly, Labour needs to show that it understands how business can change and what the future of business can look like.**

We cannot just attack the current government – we need to have our own solutions. This pamphlet outlines the growing movement within the business community towards putting purpose ahead of profit and creating models of business which focus on long-term value creation.

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“...companies which focus on a purpose beyond short-term profitability are more productive, invest more and develop their staff better than those that focus solely on profit.”

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Academic researchers and business leaders have written for many years that companies which focus on a purpose beyond short-term profitability are more productive, invest more and develop their staff better than those that focus solely on profit. In releasing the ‘golden handcuffs’ from British businesses, we can unleash their creativity and long-term value creation.

Creating a purposeful economy – an economy made up of purposeful businesses – can be a new economic mission for the Labour Party and can provide a philosophy to govern our policy making that we can credibly offer to the public and the business community. It is coherent and based on the latest ideas from academia, the business community and a growing body of evidence.

We cannot just passively wait for this transition to take place however. Labour will need to look at our corporate governance, the way that we provide financial support to business, the way we procure goods and services, the way that our tax system works and the support that we provide startups.

Articulating a new vision of more and better business based around shared values and priorities, particularly our need to deliver Net Zero, provides a policy agenda which can command business support and unite the country. Building a purposeful economy, bringing together purposeful businesses, is a way of helping every British business to be the best that it can be.

# AN OPPORTUNITY FOR A NEW STRATEGY

The Labour Party faces a type of Conservative Government that it has not encountered for over forty years, namely, a government committed, at least rhetorically, to significant public investment and an “active state”.

Although Labour can debate and challenge the veracity of the government’s claims to invest, the public seems to have accepted that Johnson’s Government is going to spend and invest more. Deloitte’s State of the State 2020/21 report has found that 48% of the public believe that the government will spend and borrow more in the wake of COVID. Only 14% believe that the government will embrace “austerity” after COVID.<sup>1</sup>

A traditional Labour response would be to promise to spend even more than the Conservatives. Politically, this is likely to be supported by most Labour Party members and voters who traditionally favour higher levels of public spending. There is also a policy case for higher public spending. In the wake of COVID, with growing NHS waiting lists, the need for students to catch up at school, a threadbare social care system and the need for rapid decarbonisation - the State must invest more.

Relying on this approach in isolation is politically risky however. Firstly, in a bidding war with an incumbent government, the government is at a distinct advantage. The authority of the dispatch box and the Downing Street briefing room when announcing new spending is greater than that of an Opposition Leader or Shadow

Chancellor. Secondly, the Conservative narrative since 2008 has been to position the Labour Party as irresponsible when it comes to managing the public finances. Promising to spend even larger amounts of public money, when the Conservatives are already rhetorically committed to significant levels of public investment, will simply help the Conservatives’ messaging. Labour’s response to this attack line has been to be honest about the need for tax rises to pay for spending. Although the Conservatives have themselves had to make significant tax rises, it is highly likely that ahead of the next election, the Conservatives will seek to announce a series of popular tax cuts to shift the narrative.

It is a core argument of this pamphlet that, rather than seeing a higher spending Conservative Government as an unresolvable strategic dilemma, Labour should see the current situation as a strategic opportunity to recast itself as the natural party of business and enterprise, as well as the party of workers and their trade unions, building a more dynamic economy which can generate higher living standards and pay for world-class public services. This would capitalise on the lack of Conservative ideas to stimulate the economy and strengthen perceptions of the Labour Party as a party that can be trusted to govern the economy in partnership with businesses and workers. It would also provide us with an opportunity to build bridges with the business community.

<sup>1</sup> Deloitte, The State of the State 2020-21: Government in the pandemic and beyond, November 2020

## There are three main reasons for optimism.

**1 Firstly, for the first time in living memory, there is a Conservative Prime Minister who is perceived to be anti-business.** Most Conservative Prime Ministers are desperate to associate themselves with the private sector, either through accentuating their own backstory and connection with the private sector or through very strong rhetoric in support of business. The current Prime Minister has done neither of these things. As a former journalist, the public is aware that he has no real background in business or understanding of business. In terms of rhetoric, the Prime Minister is alleged, infamously, to have said in response to business concerns about Brexit, “£!% business.” Where the Prime Minister has spoken about business, he has consistently misjudged the mood of the country and business itself. For example, in response to the development of vaccines by the private sector, the Prime Minister said that these were due to a combination of “greed” and “capitalism”.<sup>2</sup> Not only did this provoke a backlash from the businesses involved in vaccine development, it also provoked a backlash from Conservative MPs. As this pamphlet will show, more businesses are embracing purpose and social responsibility because they know that society is changing. Labour needs to recognize this shift in the electorate and the business community. Our disconnected Prime Minister and the party he leads have not noticed these developments or have

ignored them, as they do not suit their ideological view on what business is.

**2 The second opportunity is that the Government’s own “build back better” rhetoric has become exclusively focused on the State as the vehicle for economic and social reform.** Since Thatcher, Conservative Governments have tended to put private sector-led growth at the centre of their economic agenda and down-played the role of the State. Over the past decade, Labour has rightly criticized the government’s underfunding of infrastructure and public services as well as talking up the importance of the State as an enabler for economic growth. In a way, Labour has been a victim of its own success, with the public moving against Conservative austerity politics and Johnson recognising the public’s desire for a more active state. The Prime Minister has sought to overturn forty years of Conservative orthodoxy by repositioning the public sector as the bedrock for economic success. In his speech to Conservative Party Conference in October 2020, the Prime Minister said that the “*only way to ensure true resilience and long-term prosperity is to raise the overall productivity of the country – and the bedrock of national productivity is of course something that we are responsible for, having great public services on which everyone – families,*

*business, investors – can rely.”* The Chancellor took another hammer blow to the Conservatives’ pre-COVID economic consensus by raising corporation tax significantly to pay for increased public investment after a decade where Conservatives had made a virtue of low corporation tax rates.

It is easy to dismiss both examples as mere politics. However, the truth is that the Conservatives do not understand why the economy has underperformed over the past decade and have now embraced significant levels of public investment in the search for a “quick fix” which leaves the status quo intact. Investment in infrastructure and public services are necessary conditions for a strong economy but are not sufficient.

Between 2016 and 2019, for example, gross fixed capital formation (a way of tracking investment) by the public sector increased by 9%.<sup>3</sup> By contrast, private sector gross fixed capital formation grew by less than 0.1% in the same period.<sup>4</sup> The same trend can be identified in terms of public spending, where the total level of public spending has increased by 17% since 2016 and is due to increase by another 22% by the end of the Parliament according to the OBR. Although some factors such as Brexit need to be taken into consideration, we can look back to the 2000s – a period of relative economic calm – and see that the same trend emerges. Between 2000 and 2010, public sector investment increased by 94% under Labour

governments. In the same period private sector investment decreased by 5%.<sup>5</sup>

This leaves the whole Conservative Party’s policy framework dangerously one-sided and lacking in credibility. Instinctively, the public know that the decisions and performance of our businesses will have a critical role in our recovery. The Conservatives do not want to talk about this because they fear it will draw attention to a gaping hole in their own policy platform and there is no agreement amongst the Conservative Party about what to do. This is in sharp contrast to the 1980s where the Conservatives developed a powerful critique of British business focused around privatisation, competition and deregulation.

The Conservative Party has embraced public investment because they think it is a way to crowd-in private sector investment and avoid confronting hard truths about the persistent lack of investment and productivity improvements by UK businesses. Labour must not let the Conservatives off the hook. We need to shine a light on the poor performance of our economy during their time in office and their lack of engagement in ways to help British business succeed.

<sup>2</sup> BBC, ‘Greed’ and ‘capitalism’ helped UK’s vaccines success, says PM, 24 March 2021

<sup>3</sup> Office for National Statistics, Gross fixed capital formation – by sector and asset, accessed October 2021

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

### **3 The third opportunity is the growing distance between the Conservative Party and the business community.**

The historian David Edgerton has noted the growing disconnect between the Conservatives and business since the Thatcher years. In previous years, links between major UK firms and the Conservative Party were very strong, with many Conservative Members of Parliament being board members of some of the UK’s largest companies. This is not to say that Conservative MPs are less likely to come from business, the issue is the kind of businesses that they have come from. The links between the Conservatives and business are increasingly concentrated in the financial sector. The Chancellor, Business Secretary, Health Secretary, Leader of the House of Commons all worked in finance, rather than frontline businesses. This is despite the fact that finance only makes up 7% of the UK’s economic output. As David Edgerton noted in relation to Brexit “The first extraordinary feature is that the pro-EU position of most businesses operating in the UK was not more strongly felt in the councils of the Tory party. In the past, had a prime minister attempted to pursue a policy of national economic self-harm, the mass ranks of British capital would have intervened to prevent it (perhaps the best example of this was when businesses were strongly and openly in favour of voting to remain in the European Economic Community in the referendum of 1975).”<sup>6</sup>

Brexit, the stop-and-go COVID business support measures and the general tone of Conservative interaction with business has driven a wedge between the Conservative Party and the business community.

The issue of climate change has already created new opportunities for a stronger link between Labour and business. Most business leaders recognise the importance of tackling climate change, not just because of the financial risks that it presents to their business but also because of the moral imperative to help protect the planet. The Conservatives cannot make up their mind on how to tackle climate change or whether it is more important than other short-term political priorities. This has been highlighted in the recent creation of a “Net Zero Scrutiny Group” by Conservative MPs to undermine the case for investment to decarbonise the economy. A strong stance is needed from Labour, not only calling for partnership between business and a Labour Government but also recognising that the need for a spirit of responsibility and cooperation is in line with business thinking. As a result, given its consistency and reliability on this critical policy issue, Labour will be more trusted to take the long-term decisions needed to deal with climate change.

The important thing that our Party must remember is that this wedge will not exist forever. It will not be long before some

Conservative voices begin to identify the need for a rapprochement with the wider business community ahead of the next election using the traditional tools of tax breaks and deregulation to entice business back into the fold.

For Labour, the moment to capitalise on this gap between the business community and the Conservative Party is now, using those relationships to strengthen the credibility of Labour as a party of government. In fact, Labour is likely to get a hearing on its plans for the future of business and the economy that it has not had for several decades.

For Labour, the opportunity is clear. The battleground must not just be public spending and public services – although Labour must continue to make the case for strategic investment and reform

to public services and infrastructure – it must be how we support British business to boost our recovery.

**How do we reinvigorate private investment? How do we achieve higher levels of productivity? How do we crowd-in private investment to deliver a just transition to Net Zero? How do we encourage businesses to contribute to the social challenges that our country faces?**

By raising these questions in the right way, with a strong narrative, Labour can establish itself as the natural party of business and regain the economic credibility which is an essential foundation for electoral success.

<sup>6</sup> David Edgerton, How Business was sold, The New Statesman, 13 November 2019

## A CLEAR LABOUR MESSAGE ON BUSINESS

**Labour needs a clear narrative which is credible with the public and which provides a platform for policies to build a better, greener future for the whole of the United Kingdom.**

**In our view, this narrative needs to come in three parts.**

1. A strong recovery from COVID can only be an enterprise-led recovery.
2. British business will need to achieve levels of investment and productivity growth not seen in a generation – in sporting terms we need British business to set a 'new personal best'.
3. Labour understands the challenges facing modern business, the Conservatives are stuck in the past.

## PART ONE An enterprise-led recovery

Firstly, Labour needs to be clear that a strong recovery from COVID has to be an enterprise-led recovery. This does not mean talking down public investment or public services, but it does mean talking up business and the contribution that they will make to the UK's recovery from the pandemic.

Aside from the politics of it, this is a statement of truth.

A quick analysis of recent history and the data shows the power that business has to shape the UK's recovery from the pandemic.

Although COVID has led to a large increase in State intervention and public spending to maintain the economy, the vast majority of economic activity will take place in the private sector rather than in the State. Depending on your calculation, outside of COVID, the private sector contributes anywhere between 70-80% of economic activity. It is important to consider that even when we think about "public spending" at least around a third of that spending is through businesses in the form of public procurement. Pre-COVID, public procurement was £300bn a year or around 13% of UK GDP and although this is directed by the State, we are dependent on private businesses, social enterprises and charities to provide those public goods and services.<sup>7</sup>

We can also see from the recovery from the financial crisis the need for a

robust enterprise-led recovery. Analysis by the OBR during the period 2010-2013 consistently found that a lack of productivity growth, which in turn suppressed wage growth, led to a slower than anticipated recovery from the financial crisis.<sup>8</sup> Some of this can be attributed to the Conservative austerity policies which reduced demand and created significant economic turbulence. However, there was also a lack of investment in staff by firms during the same period and the lower levels of investment. In a speech in 2018, Silvana Tenreyro, Professor of Economics and External Member of the Monetary Policy Committee, noted that there had been an investment boom in the EU, but this had not taken place in the United Kingdom. She believed that this lack of investment by firms was a driver in consistently lower levels of productivity.<sup>9</sup>

The myopic view of the then Conservative Government that the only thing that was holding back the UK's recovery was too much public spending was decisively disproven. The obsession of the Conservatives with the State as only factor behind the UK's lower levels of productivity (either that it has spent too much as in the Cameron/Osborne years or that it has not invested enough in infrastructure as in the May/Johnson years) is a political and policy weakness.

Labour needs to decisively reject this narrative of blaming the State through talking up the need for an enterprise-led recovery.

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“...this means talking up the role of business in the recovery, not focusing all the attention on the action of government.”

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In practice this means talking up the role of business in the recovery, not focusing all the attention on the action of government. Labour should be as vocal in engaging with the private sector about their plans for investment and hiring as it is about monitoring the UK Government’s actions. It means Labour articulating the need for private sector growth to fuel higher levels of wages and the tax revenues needed to pay for public services. It means articulating that Labour will put in place the policies which will encourage higher levels of investment and innovation by private firms, not just relying on the State to do all the heavy lifting on issues such as increasing spending on skills or decarbonization. It means Labour speaking consistently, as Sir Keir Starmer did in his 2020 CBI speech, about the need for a partnership between business and a Labour Government in the national interest.<sup>10</sup>

It also means tapping into the patriotic belief that the British people have in the importance of private enterprise. This is the country of the Industrial Revolution, the former workshop of the world. There is an emotional desire for Britain to become economically competitive on the global stage once again which Labour can and must speak to. This is

particularly true in the so-called “Red Wall” seats which our Party must win back.

This is not a break with Labour tradition. All three of Labour’s election winning Prime Minister’s understood this point – although they articulated it in different ways. Both Attlee and Wilson understood that Labour’s vision could only be achieved through higher levels of business productivity with a strategic State. Labour’s 1945 manifesto was clear that “upon our ability to produce and organise a fair and generous distribution of the product, the standard of living of our people depends.” Although understandably sceptical about the private sector after the years of the Great Depression, Attlee’s Government sought to boost the productivity of British business to pay for a comprehensive welfare state through better organisation and investment. Wilson’s “scientific revolution” of the 1960s was a similar analysis. The “white heat of technology” depended on removing “restrictive practices” and “outdated methods” in the private sector, as Wilson put it in his famous 1963 Conference Speech.

Labour’s landslide winning 1997 manifesto offered “a new partnership with business to improve the competitiveness of British industry for the 21st Century, leading to faster growth.” As Tony Blair told the CBI in 2003, “[i]n the end, the interests of business and government converge. Both of us need wealth creation and enterprise to flourish. Both of us also need the highest levels of education and skills we can obtain and an infrastructure good both for business and the consumer. ►

The whole country benefits from an extension of opportunity and the reduction of insecurity, poverty and social exclusion which follows. Whatever disagreements on particular issues, the partnership between us is essential”.

The policy need for this approach is clear but there will also be political advantage to this approach. The

Conservatives have traditionally attacked Labour for being purely a “tax and spend” party. The Conservatives, regardless of their own fiscal position, will always accuse Labour of being the party of state expansion, spending and borrowing. A narrative that drives forward the idea of an enterprise-led recovery will help to challenge this attack head on and is essential to win back public confidence.

<sup>7</sup> Institute for Government, Government procurement: the scale and nature of contracting in the UK, 2018

<sup>8</sup> Office for Budget Responsibility, GDP per capita and productivity, September 2017

<sup>9</sup> Bank of England, Speech: The fall in productivity growth – causes and implications, Silvana Tenreyro, 15 January 2018

<sup>10</sup> Labour, British people and British businesses badly let down by this Government – Keir Starmer speech to CBI Conference, 2 November 2020

## PART TWO More and better business

The potential trap for Labour in Part One is the temptation to only speak positively and without challenge about British business. The trap is two-fold.

On the one side, if Labour lacks any critique of the current state of British business, there is a danger that it becomes a meaningless slogan which it is easy for the Conservatives to copy. No political party will go into an election saying that they are “anti-business”, and the Conservatives because of their history are more likely to win a contest between two parties that say that they are going to uncritically “back business”.

On the other side, there is a serious policy challenge for Labour. There is now a clear consensus across the board that Labour did not do enough during its most recent time in office to change the economic model of

the UK away from a dependence on financial services and spread prosperity across all parts of the country and society. This means that Labour cannot just copy and paste the 1997 handbook to develop a narrative around business and must reflect the need for change if there is going to be a resurgence in British economic performance under a Labour Government.

Labour must be clear about the challenges facing the British economy and the need for British business to adapt to achieve success. Not only is this true but it is also likely to build the biggest possible coalition of supporters across the Party and voters. To avoid the risk of seeming to talk down British business, Labour should talk about “more and better British business,” recognising that the UK is still a world leader in numerous sectors and looking at our recent history to benchmark our performance. ►

The problem is that whilst the UK is a pioneer in numerous fields, we have a long tail of businesses which are not achieving the levels of productivity close to that of their high-flying counterparts and this has hampered the performance of the UK economy. This insight has been endorsed by the former Chief Economist of the Bank of England, Andy Haldane, who was drafted in by the government to write the Levelling Up White Paper as well as business groups such as the Institute for Directors and CBI.<sup>11</sup>

Improving British business is not something that will be achieved overnight, and Labour needs to be honest with the British people as to the level of the challenge we face. The turbulence of the financial crisis, Brexit, and now the pandemic have made the passage of time feel much faster, but a hard-headed look at the facts shows that the last time we saw consistent levels of growth, investment and productivity was almost a generation ago, in the early 2000s.

Comparing the situation then with the situation now provides a stark reminder of how big the challenges that we face are. Economic growth during the period 2000-2005 averaged 2.8% per year.<sup>12</sup> Between 2015 and 2019, growth has averaged 1.7% a year. Beneath those numbers were higher levels of productivity, with output per worker rising by 11% between 2000-2005 compared to just 2% between 2015 and 2019. Similarly, business investment increased by 10% in the 2000-2005 period compared to 6% between 2015 and 2019. Wages increased at double the rate during the 2000-2005 period compared to the current decade, where real

wages have only just returned to the levels since before the financial crisis.

The more time passes the further we move away from that last period of sustained increases in productivity, living standards and investment. These are the levels of performance that the UK economy needs to achieve, and exceed, over the coming years if we are going to build back better from COVID and significantly improve the livelihoods of working people.

British business has a critical role to play in that effort, but like a football team that has been hovering around the middle of the table, we need to take a look at our squad and our tactics if we are going to push for the title.

The fact that the British economy has been able to sustain those levels of performance in the not-too-distant past should give us confidence that they can be achieved again.

This reflective narrative, building on our acceptance of the importance of British business in the UK's recovery and the need for it to be enterprise-led, can win Labour a hearing on the future of our economy which will be the critical battleground at the next election. A balance between supporting the potential of British business and an honest appraisal of the scale of the challenge will enable Labour to set the platform for the next part of our narrative, our vision and one which can be implemented in office.

<sup>11</sup> Bank of England, Speech: The UK's Productivity Problem: Hub No Spokes, Andrew G Haldane, 28 June 2018

<sup>12</sup> All figures Office for National Statistics unless otherwise stated

## PART THREE Showing Labour understands the future of business

Understanding the scale of the challenge and a clear-eyed assessment of where we are is an essential part of any Opposition's role in preparing for government. Laying out a vision for what can come next is the other major component.

Under the leadership of Sir Keir Starmer, Labour has started to prepare the ground for a future vision of business. In his 2020 CBI speech, Sir Keir spoke about the fact that Labour would have "high expectations" of business and in return business should have high expectations of a Labour Government.<sup>13</sup> This is the kernel of vision for business which needs to be built upon.

Business itself has started to recognise the need for it to have "higher expectations" of its own performance. A survey of 660 business leaders commissioned by the British Academy found that 63% of business leaders had taken steps to make their own business "purposeful" – that is to have a purpose beyond just generating profit.<sup>14</sup> Their Future of the Corporation programme has developed a consensus around a new "purpose of the corporation" around the need for business to find profitable solutions to the problems of people and the planet, effectively taking greater social and environmental responsibility.<sup>15</sup> Even the United States, the country that gave birth to Friedmanite shareholder capitalism, has seen the Business Roundtable issue a statement on the purpose of the corporation which called for companies to "respect the people in our

communities and protect the environment" as part of their purpose.<sup>16</sup>

This is not merely an academic perspective. Lord Karan Bilimoria, President of the Confederation, told the launch of the final Future of the Corporation report that the "cost benefit" of purpose-led business is "off the charts."<sup>17</sup> Other founders and CEOs of successful UK businesses such as Douglas Lamont of Innocent Drinks and Julian Richer of Richer Sounds have all become champions of purpose.

The public also want to see a change in the way that business is done. A recent survey by American pollster Frank Lutz published by the Centre for Policy Studies found that the top priority of people for business, if they had a chance to speak with business leaders, was for them to "put people ahead of your profits". There was also agreement across both Labour and Conservative voters that businesses should take more of a leadership role in tackling climate change (42% of Labour voters agreed as well as 45% of Conservative voters).<sup>18</sup>

This is not an isolated result. In the wake of COVID, 72% of Britons told the pollster Ipsos Mori in October 2020 that they are looking to buy brands that reflect their personal values, up from 56% in 2019.<sup>19</sup> Another poll by YouGov in October 2020 also found that 77% of people would like to see more businesses set up with a priority on using their profits and business

operations to make a positive impact on the wider community.<sup>20</sup>

Increasingly, businesses are recognising that a narrow focus on profitability is undermining support for business in the wider public. This support is vital to sustain trust in the institutions of democracy and the rule of law which have enabled business to thrive. Not only this, but there is growing evidence that purpose-led businesses are achieving better financial results because of their focus on long term value creation rather than short-term profit extraction.

This is not just a trend amongst the largest businesses. Research by consultancy Peak B in 2018 found that 43% of small businesses wanted to support their community in some way and 70% believe that small business needs to focus on people and their needs as a responsible member of the local community.<sup>21</sup>

There is a Wilsonian moment for the Labour Party to seize. Just as in the 1960s, where Harold Wilson was able to talk persuasively about the scientific revolution taking place throughout the economy and the need for Britain to raise to the challenge, Labour has the chance to explain the same about the development of purposeful business. By showing an understanding of the future, Wilson was able to gain the trust of the public and put into sharp focus a tired Conservative Government running out of ideas. As the political commentator and author Steve Richards has argued in the past, all

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“...there is growing evidence that purpose-led businesses are achieving better financial results because of their focus on long term value creation rather than short-term profit extraction.”

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successful leaders (and political projects) need to be teachers as well as listeners. The future of business is an opportunity for Labour to begin a new political dialogue with the British people.

There is a global race to see who can find the right balance for business, between preserving the dynamism and innovation of the corporation, with the need to place business within a long-term framework of value creation. Britain is well placed to win that race, but it will require enlightened political leadership. Only Labour can provide that leadership.

The Conservatives are stuck in the past, unwilling to confront their present and ignorant of the future. The moment is ripe for Labour to put forward this vision of purposeful business, in line with our values about the need for all parts of our society to come together for the common good.

We must at the same time be realistic. We know that this is not going to be an easy journey and that some businesses may seek to cover themselves in the

language of purpose whilst pursuing traditional strategies. This is why creating a strong policy framework to encourage and champion business reform is important.

The task for the coming year is to articulate this vision and to flesh out the policy programme that Labour would put into effect if it were to enter Office.

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<sup>13</sup> Labour, British people and British businesses badly let down by this Government – Keir Starmer speech to CBI Conference, 2 November 2020

<sup>14</sup> The British Academy, Survey Highlights appreciate for new definition of corporate purpose among UK businesses, 15 October 2020

<sup>15</sup> The British Academy, Policy & Practice for Purposeful Business, 23 September 2021

<sup>16</sup> Business Roundtable, Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans', 19 August 2019

<sup>17</sup> Pioneers Post, Cost-benefit of purpose 'off the charts', says CBI Chief, as Future of the Corporation project concludes, 24 September 2021

<sup>18</sup> Centre for Policy Studies, Britain Speaks: The New Language of Politics & Business, July 2021

<sup>19</sup> Ipsos Mori, Demand for business leaders to speak out on social and political issues rises, amid growing alarm about climate, 8 October 2020

<sup>20</sup> YouGov, Polling for Social Enterprise UK, 2019

<sup>21</sup> Peak B, Small Business Community Impact, September 2018

# A PURPOSE-LED ECONOMY: How can Labour implement this in government?

Developing a Labour programme for government requires an honest appraisal of the real barriers to the UK's economic performance. Some of the myths that have been articulated by the Conservative Party over recent years need to be challenged to create a debate which Labour can win on the future of business. Our Party needs to be

prepared because these are the myths that will be thrown at any Labour plan to reform the economy and are likely to be features of the next Conservative manifesto.

We will consider four of these myths for why British business has not kept the pace with our global competitors.

## MYTH ONE: The UK is too heavily regulated

There may be isolated regulations which should be scrapped but the UK remains a very flexible economy and there is little evidence to suggest that regulations are a barrier for firms that want to invest.

The UK is ranked 8th in the world for “ease of doing business” according to the World Bank. There have also been large reductions in regulation under previous Coalition and Conservative governments.<sup>22</sup> The Coalition Government alone removed or reformed over 3,000 out of 21,000 statutory regulations, claiming to have saved businesses over £850m per year for business.<sup>23</sup> It further estimated that the “one in-one out” rule, introduced in 2011, had saved businesses an estimated £2.2bn a year.<sup>24</sup> A cross-party “Red Tape Initiative” chaired by former

Conservative Cabinet Minister Sir Oliver Letwin only made 37 recommendations to change regulations, a significant number of those related to historic buildings. This hardly indicates a large-scale problem of overregulation.<sup>25</sup>

## MYTH TWO: The UK lacks innovation and creativity

One reason behind our lack of productivity and slower growth in recent years is that we may be less innovative than our peers. The argument made is that UK companies are not investing because there are a lack of new products, ideas or people to invest into. The evidence is clear that this is not the case. According to the Global Innovation Index 2021, produced by the World Intellectual Property Office, the UK is the 4th most innovative country in the world.<sup>26</sup> Of our main global competitors,

only the United States is considered more innovative. Interestingly, the main weakness for the UK was “business sophistication” related to the absorption and deployment of knowledge generated by the UK's world beating university and creative sectors. The UK's global powerhouse of universities and creative industries is well documented. The UK punches far above its weight in terms of creativity and innovation. Yet this has not translated into higher levels of growth or wages for the UK economy.

<sup>22</sup> World Bank, Ease of Doing Business rankings, accessed December 2021

<sup>23</sup> Sir Jeremy Heywood, Civil Service Blog, The Red Tape Challenge, 31 October 2014

<sup>24</sup> HM Government, Impact Assessment for extension of the business impact target, August 2015

<sup>25</sup> Red Tape Initiative, Better regulation for a post-Brexit Britain, November 2018

<sup>26</sup> World Intellectual Property Organisation, Global Innovation Index 2021, September 2021

## MYTH THREE: UK markets are uncompetitive

Another argument is that UK markets lack competitiveness, and this lack of competition means that there is less pressure on businesses to invest. On the face of it there is concern that some consumer markets are becoming more concentrated. In 2018, the Social Market Foundation carried out analysis that found that 8 out of 10 consumer markets were dominated by a small number of large companies.<sup>27</sup> But beneath

the headlines, the picture was more nuanced. Several of these consumer markets could be considered “natural monopolies” such as gas, electricity, broadband and landline telephones where there is never likely to be a large number of competitors. Even by its own estimate, only two markets (broadband and fixed-line phones) were “highly concentrated”, and these could both be considered natural monopolies. Moreover, concentration in most markets had remain fixed, with three (mortgages, electricity and gas) actually seeing a reduction in concentration in recent years.

The UK has also seen a huge growth in new businesses and start-ups – with the number of employing businesses in the UK growing by 27% since 2000, with the pace increasing slightly since 2010. The UK is also ranked the 9th most competitive economy in the world according to the World Economic Forum and only scores slightly lower than peers such as Germany and the United States and is ahead of other major economies such as Canada and France.<sup>28</sup> Interestingly, Japan which has also experienced low levels of productivity and wage growth has a more competitive economy than the UK according to the WEF, which means that competition is no short cut to success. One area where the UK can be claimed to lack competition is around business models, with the UK heavily balanced towards shareholder and

owner/manager models of business, compared to other countries where there are higher levels of cooperatives and social businesses. This is something that this report will consider in more detail later.

#### **MYTH FOUR: UK businesses are overtaxed**

A myth that has been particularly popular with the Conservative Party and some parts of the media is the view that UK businesses are overtaxed. The evidence is clear that this is not the case.

The UK has one of the lowest rates of corporation tax in the world and although the Chancellor has announced an increase in corporation tax, the UK will still have the lowest headline rate of corporation tax in the G7. The UK also provides tax privileges to business owners and managers over employees. According to OECD, the UK has a below average tax take from corporate income and gains than the average for developed economies. Moreover, analysis of corporate tax cuts since 2010 by the Social Market Foundation and Social Enterprise UK found that there is no link between corporation tax cuts and increases in business investment.<sup>27</sup> Moreover, the same report estimated the net fall in UK business taxes to have been around £50-60bn over the past decade, a significant level of tax

support. If UK businesses had been overtaxed, we would have expected a significant reduction in taxation over the past decade to have led to higher levels of investment. Although there are inequities in individual tax areas (e.g. business rates, investment allowances), taken as a whole, UK business is not overburdened and there is no quick fix in reducing tax rates to boost economic growth.

So, if the UK economy is not overly regulated, uncreative, uncompetitive, or overtaxed, then what is the answer?

<sup>27</sup> Social Market Foundation, Competition, not Concentration – Creating Better Consumer Markets, July 2018

<sup>28</sup> World Economic Forum, Global Competitiveness Report, 2020, September 2020

<sup>29</sup> Social Enterprise UK & Social Market Foundation, Bounce Back Britain, June 2020

## PURPOSE AND LONG-TERM VALUE CREATION

Increasingly, economists, investors and business leaders have come to realise that the culture and governance of firms is at the centre of their economic performance. A 2019 report by Grant Thornton found that companies with strong governance were 29% more efficient at generating profits and 43% more efficient at making and selling products and/or services.<sup>30</sup> They were also generating double the return for shareholders and were more resilient than their peers.<sup>31</sup> Insights like this have spurred on the focus on “ESG” within the financial sector, with funds looking at environmental, social and governance factors when making decisions about which firms to invest in. Firms which score higher on these factors are more likely to successfully repay investments and generate higher value.

A report by McKinsey published in November 2019 on the value of ESG approaches to investment found that firms which score highly on ESG attract more customers, reduce energy consumption, boost employee motivation and attract higher levels of talent, and enhance investment returns through better decision making.<sup>32</sup>

Looking at our international comparators again, it is interesting to note that Canada, which is ranked 4th by the World Bank in terms of corporate governance, and is the highest of all the major economies, has had the highest levels of productivity increase in recent years. The United Kingdom by contrast has fallen from 6th place in 2017, to 13th place in 2019.

The insight is an obvious one and a simple one but is far too often overlooked by policy makers. Better run businesses are critical to delivering higher levels of investment and growth.

The question is how we put in place the framework to improve UK corporate governance to encourage long term value creation through investing in people, in decarbonisation and encouraging a stronger commitment to society. Just telling companies to “be better” is not a recipe for success, we need to use the tools of the modern economy to encourage that long- term thinking. This is where business leaders, academics and policy makers have increasingly looked at embedding social and environmental purpose into the heart of companies, creating a new locus for the business beyond just creating profit.

There has been significant work on understanding how purpose can play a role within business. The simplest definition for a purpose-led business has been proposed by Professor Colin Mayer and the British Academy, which has defined “purpose-led business” as business which aims to “profitably solve the problems of people and planet.” Purpose-led businesses can be found in many forms. Some have formal legal structures in place to instil purpose into the company. Social enterprises are an example of this formal legal structure. Others have created mechanisms for accountability which enable external verification of their purpose and impact, ►

such as B Corporations. On a more informal basis, there are family firms (e.g. Timpon, Wates) which have embedded purpose and social impact into their work. On the periphery there are thousands of businesses which have a purpose beyond profit but would not formally consider themselves to be purpose-led businesses. These businesses would consider themselves “good corporate citizens”.

Research has shown that those businesses that have a purpose beyond profit perform better than businesses that are focused purely on profitability. They make better long-term decisions, being prepared to sacrifice the short term to deliver their long-term vision of success. This is not a new insight. In the 1990s, Jim Collins and Jerry Porras found that “visionary companies” (guided with a purpose beyond making money) returned six times more to shareholders than explicitly profit-driven rivals.<sup>33</sup> A more recent 2015 survey of business executives in the Harvard Business Review’s The Business Case for Purpose found 53% of executives that said their organisation had a purpose beyond profit reported greater success with regards to innovation and transformation efforts compared to 19% of executives who said that their business did not have a purpose beyond profit.<sup>34</sup>

World renowned economist Mariana Mazzucato has spoken about the need to create a “mission economy” to tackle 21st Century challenges and has shown when public and private organisations are focused on a shared mission and sense of purpose, huge technological leaps forwards are possible – most famously, the moon landing in 1969.<sup>35</sup> The Institute for Public

Policy Research’s Commission on Economic Justice reached a similar conclusion. The Commission brought together experts from business, academia, and politics to consider how to improve the UK economy. Its conclusion on business was that the UK needed to “create more purposeful companies focused on long-term success”.<sup>36</sup>

Embedding a social or environmental purpose into the business changes the dynamic of a business. No social or environmental issue can be solved overnight, and by nature businesses have to look longer term. Moreover, by putting a purpose into the mission, this forces a business to consider different approaches to the products and services, driving new waves of innovation and investment. This would also encourage businesses to go beyond mere branding of purpose, but to consider all the commercial and operational decisions they make as businesses in light of a wider mission to help society and the planet.

Without knowing it, the UK has been participating in one of the largest experiments into the value of purpose in driving better business. Over the past twenty years, the UK has developed over 100,000 social enterprises, and it is one of the fastest growing forms of business in the country. Social enterprises are businesses which have a legally binding social and/or environmental purpose which is the primary focus of the company. They are also obliged to invest at least fifty per cent of any profit back into the business or give to another organisation to advance their purpose, and they have to be governed in a way that enables them to independently advance that mission. Research from Social Enterprise

UK has found that social enterprises have the characteristics of successful companies and have generated better results than their peers in the rest of the private sector. For example, the latest data found that 44% of UK social enterprises had grown their turnover before COVID, compared to just under a fifth of SMEs overall. They were also more innovative than their peers, with 66% of social enterprises introducing a new product or service into the market, far higher than other SMEs. They were also more likely to be investing in their staff, with 81% of social enterprises investing in work and training for their staff compared to 47% of SMEs. Interestingly this purpose driven approach to business attracts a more diverse group of entrepreneurs, with 47% of social enterprises being led by women compared to just 18% of SMEs, and 14% were led by people from racialised communities compared to just 8% of SMEs.<sup>37</sup> B-Corps, another form of purposeful business, are growing faster than other SMEs. Between 2017 and 2019, B Corp SMEs’ mean average annual turnover growth was 25% compared to an average of 3% for all SMEs.<sup>38</sup>

The pandemic has also shown the value of widening control and governance of businesses to keep their focus on purpose and long-term value creation. Research from Co-operatives UK found that just 1.5% of co-operatives dissolved in 2020 compared to 6.5% of other kinds of business.<sup>39</sup> Turnover of co-operatives actually increased during the pandemic year, by nearly 3%.<sup>40</sup> This compares with contractions across most of the rest of the economy. As Chief Executive of Cooperatives UK, Rose Marley has said “the co-operative purpose, ownership and governance all dictate long-termism.” This

shows the value of workplace democracy and co-operative principles in business.

The government’s own Advisory Panel to the Mission-Led Business Review in 2016 found on average that businesses which embrace social and environmental priorities “perform better, reflect people’s ideals and ambitions, and so are primed for success”. Well governed and purpose-driven businesses are more likely to invest in their business, to invest in their people and spread opportunity throughout their communities.<sup>41</sup>

The challenge for Labour is how to mainstream these lessons, to improve decision making and focus firms on long-term value creation. To make this change will require real political leadership, as it runs against decades of policy orthodoxy which has seen economic challenges purely from a macroeconomic perspective, ignoring the role that individual firms and business leaders play in the decisions that are made throughout the economy.

The British economy needs a fresh perspective and a new policy framework, only Labour can provide these.

<sup>30</sup> Grant Thornton, Corporate governance and company performance, 2019

<sup>31</sup> Ibid.

<sup>32</sup> McKinsey Quarterly, Five ways that ESG creates value, November 2019

<sup>33</sup> J. Porras & J. Collins, Built to Last: Successful Habits of Visionary Companies, October 1994

<sup>34</sup> Harvard Business Review, The Business Case for Purpose, October 2015

<sup>35</sup> M. Mazzucato, Mission Economy: A Moonshot Guide to Changing Capitalism, January 2021

<sup>36</sup> Institute for Public Policy Research, Prosperity and justice: A plan for the new economy, September 2018

# A PURPOSEFUL ECONOMY: Labour's vision for business to deliver a prosperous and fair economy

All this provides a platform for Labour to articulate its own vision for a purposeful economy. This is an economy made up of purposeful businesses, creating the basis of a stronger partnership between a Labour Government, businesses, workers and their trade unions.

This is a vision where Labour expects the best from British business and its workforce and puts in place the conditions for every business, large or small, to focus on creating long-term financial, social and economic value, with its workforce. It is a vision where Labour expects businesses to see themselves as active citizens, with responsibilities to the wider community and society. It is a vision that encourages a wider range of business models, including B-Corps, co-operatives and social enterprises, to widen control of business in our society. Only through changing the way that individual businesses approach commercial decisions can a strong partnership be made between a progressive Labour Government and the business sector, and a purposeful economy created.

It is a vision of business which is pro-enterprise, pro-worker democracy and pro-competition.

Rather than a Conservative vision that is stuck in the past, which in the Prime Minister's words expects business to be motivated by "greed" to generate results,

Labour will work with businesses and workers to build an economy based on modern principles and evidence.

The good news is that Labour is not operating in a vacuum. Increasingly, business leaders themselves have started to recognise the importance of better forms of governance and to have a wider understand of their purpose.

But we know that this will require a supportive business environment. Labour championing purposeful business will achieve nothing unless we have credible ideas of how to put this into practice. The rest of this pamphlet will consider some of the levers that a future Labour Government can pull in order to make that vision a reality including:

1. Corporate governance and reporting
2. Public procurement reform
3. Tax reform to promote purpose-led business
4. Expanding ownership and democracy across our economy
5. Access to finance
6. Competition and industrial policy

<sup>37</sup> Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021

<sup>38</sup> B Lab UK, How do UK B Corps perform?, accessed December 2021

<sup>39</sup> Co-operatives UK, The Co-op Economy, June 2021

<sup>40</sup> Ibid.

<sup>41</sup> Advisory panel to mission-led business review, One A Mission in the UK Economy, December 2016

## Corporate governance and reporting

We need a major upgrade of UK business law and corporate governance to make best practice standard practice across the entire economy. As a recent Labour Business review into Takeover Policy has concluded, we need to reform the Companies Act and the legal framework for UK corporate governance.<sup>42</sup> Sir Keir Starmer, in his 2021 Conference Speech also suggested that we needed to reform company law to encourage "long-term success of the company the main priority" of directors.<sup>43</sup>

This is not anti-business but is increasingly being called for by business itself. A survey by the British Academy in 2019 found that 40% of business leaders wanted the UK Government to change company law and regulation to encourage purpose within UK firms.<sup>44</sup>

A coalition of over 870 businesses have come together to call for a "Better Business Act" which would encourage every firm to state their purpose and to take into account the social and environmental impact of their company. This coalition has got the support not just of business groups but representative bodies such as the Institute for Directors.<sup>45</sup>

Whether it is a Better Business Act or some form of corporate governance reform, Labour should begin consultation with the business community about upgrading the legal framework that UK

companies operate within.

Equally as important are steps to improve company reporting on social and environmental impact, particularly given the pressing need to deal with climate change. The luxury goods company Kerning, the Crown Estate, and other firms have experimented with more detailed reporting of social and environmental impact which have shown that larger firms can do more to understand and articulate their social and environmental impact. A cross-sector campaign from business, NGOs and other experts called "How Do Companies Act?" has called for Section 396 of the Companies Act to strengthen the requirement of company accounts to give a true and fair view of their state of affairs. This strengthened section would require larger firms to not only provide financial information but also information on their social and environmental impact. As the global investment community increasingly embraces ESG, there is an opportunity for the UK to take a lead which will make the UK a more attractive place for investors and channel the trillions of dollars of global investment in ESG funds into the British economy.

A new Companies Act or a Better Business Act will not change every company overnight, but by putting in place a modern framework for business a Labour Government can give

every company in Britain a lift. It will provide the stimulus needed to get all businesses to consider the contribution they can make to improving our society. More importantly, Labour can help to improve the culture of British business to encourage the long-term value creation which our country needs to articulate.

### Public procurement reform

The Shadow Chancellor, Rachel Reeves, has already outlined Labour's plans to place more weight on social and environmental outcomes when it comes to public procurement. This is welcome but Labour needs to bring these proposals into a wider context about the value that procurement can have in encouraging firms to change their behaviour and put social and environmental purpose at the heart of their wider business.

The scale of public procurement is significant, as noted earlier, the UK state regularly spends around £300bn a year on various goods, services and works.

Unfortunately, we have not maximised the value of that spend or the ability of that spending to shape the kind of economy that we want to see in the future.

For example, on the basic issue of fair tax, research by Demos found that 25 out of 34 of the government's thirty four Strategic Suppliers (73.5%) are part of a corporate group including one or

<sup>42</sup> Labour Business, Takeovers and the UK Economy – A Reform Agenda, September 2021, See <https://labourbusiness.org/publications/takeovers-and-the-uk-economy/>.

<sup>43</sup> The Labour Party, Conference Speech: Keir Starmer, 29 September 2021

<sup>44</sup> The British Academy, Survey Highlights appreciate for new definition of corporate purpose among UK businesses, 15 October 2020

<sup>45</sup> [www.betterbusinessact.org](http://www.betterbusinessact.org)

more subsidiaries in 14 tax havens (not including US mainland, EU or Single Market jurisdictions).<sup>46</sup> Seventeen of those (50%) were part of a corporate group with subsidiaries in British Overseas Territories or Crown Dependencies, such as the British Virgin Islands and Guernsey. Twenty of the 25 tax-haven-linked Strategic Suppliers were awarded more than £41 billion worth of government contracts between 2011 and 2017.<sup>47</sup> Basic hygiene on public procurement is essential to setting the right tone for business.

As importantly, the social and environmental returns to the economy through effective procurement are potentially game changing. And at a local level, Labour has been in the lead in making that a reality. We just need to apply the principles at a national level.

Star Procurement in Greater Manchester, a strategic partnership between Labour-run councils in Rochdale, Stockport, Tameside and Trafford has generated £21.6m in social value based

on £78m on contracts. This is a 28% return based on the contract values.<sup>48</sup> This social value can come in a variety of forms from providing apprenticeships to young people, to investing in local community projects, buying locally or investing in low carbon initiatives. If this approach from the "best in class" in the UK was replicated across the UK public sector as a whole we could generate £84bn in additional social value across the economy every year. This would be equivalent to an extra 2.8 million apprenticeships every year or planting 8 billion trees. This would be a transformative level of investment not only improving economic performance but strengthening communities and increasing the pool of social and cultural capital.<sup>49</sup>

By linking contracts to long term social and environmental value to support the growth and development of purposeful businesses, Labour can encourage a more purposeful economy.<sup>50</sup>

Labour can also do more to encourage competition between businesses around social and environmental impact through

### Tax reform to promote purpose-led business

A mistake by Conservative Governments in the past has been to assume that tax cuts alone generate growth and productivity. As we have seen with the corporation tax cut experiment of the past decade, the relationship is more complex.

diversifying supply chains to include a wider variety of business models. Less than 10% of contracts are awarded to social enterprises and cooperatives on an annual basis. We know that social enterprises and cooperatives are more likely to put social and environmental purpose at the heart of their work and can provide a useful challenge to the rest of the market and demonstrate what can be achieved.

A stronger and better implemented Social Value Act would be one way to achieve this. This legislation, brought into effect in 2013, has only been weakly applied so far and despite the successful use of social value contracting across all parts of the public sector still only applies to public services, not goods and works. Legislative reform to the Social Value Act or other measures like it can provide a way for a Labour Government to shape markets and provide a model for how companies can embed social and environmental purpose into their business.

<sup>46</sup> Demos, Value Added: How better government procurement can build a fairer Britain, October 2019

<sup>47</sup> Ibid.

Unfortunately, our tax system does neither well. The UK currently treats

every company as if it were the same. A worker-owned co-operative which reinvests all its profits back into the local community pays the same rate of tax as a multinational firm which puts nothing back into the community.

We have failed to put in a system which encourages firms to prioritise investing in people and places, despite the clear skills gaps in the UK economy

For example, over a ten year period, the financial rewards for business for investing in people or equipment is basically the same. When you consider that capital investment adds to the value of the balance sheet of the business whilst workers can take new skills to other employers, our tax system should be used to help incentivise the investment into workers that we want to see in the UK economy.

Our tax system needs to reflect the UK's economic priorities and indicate the type of business that we want to promote in the UK. A long-term focus on tax has been lacking in the UK under this current government. The first Corporate Tax Roadmap was published in 2010 and the last Business Tax Roadmap was in 2016, despite Net Zero, Brexit and COVID creating significant new challenges for the UK economy.

Labour could commit to working with business to put in place a new Business Tax Roadmap for the 2020s.

This would look at all aspects of our business tax system from business rates and corporation tax to national insurance and capital allowances. This Roadmap could articulate new principles for the future of business taxation from rewarding companies that embed social and environmental purpose into their governance, to profit reinvestment into local communities, emission reductions and investing in people.

Rather than just seeing tax as a revenue raising tool for public services, which remains of critical importance, Labour would use the tax system to support better business and to raise standards across the British economy. For too long, British Governments have not used all the tax system to full effect. It is time for Labour to show how it will use all the tools at our disposal to shape a better environment for British business.

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<sup>48</sup> Star Procurement, Achievements 2020/21 - accessed December 2021

<sup>49</sup> Social Enterprise UK & Social Market Foundation, Bounce Back Britain, June 2020

<sup>50</sup> For an earlier Labour Business report on the use of government contracting to promote responsible business, see <https://labourbusiness.org/publications/report-socially-responsible-procurement-policy/>. Although the legal analysis looks at public procurement under pre-Brexit EU rules, its policy recommendations remain valid today.

## Expanding democracy across our economy

Conservative politicians have spoken about wanting to encourage greater levels of worker participation but have failed to deliver. In 2016, the then Prime Minister Theresa May promised to put forward proposals to put more workers on boards, but this has been scrapped due to opposition from within her own Party. Where they have offered workers a greater voice, the idea has been that they have to give up their rights - as under the Conservatives "Employee-owner scheme," which gave tax exemption to shares bought by workers in return for their losing regulatory protections.

This is because the Conservatives do not trust workers to be custodians of businesses. This is despite all the evidence to the contrary. Some of our most successful companies - from the Co-operative Group, John Lewis, and Arup - have been run as co-operatives. These companies have also traditionally played a significant role in supporting their local communities and tackling climate change. In fact, despite the reticence of major financial firms to promote these models, in the City itself many of our flagship financial services firms are run as staff partnerships. The recent decision by LV members to reject demutualisation shows that co-operativism is popular with the public..

Labour recognises that an engaged workforce is a happier, healthier and

more productive workforce. Moreover, the long-term interests of workers and business are usually aligned as workers want to see their companies survive and thrive over the long term, so that they can stay in work and improve their standard of living.

However, this should not just be about workers. Communities also have a stake in local businesses. At a time when high streets are under pressure and there are concerns about the impact of the digital economy on small businesses, opening up ownership to local communities can provide a way to engage new customers, retain existing customers and share the benefits of business across society.

Labour should work with business, trade unions and employee ownership experts to see what more can be done to give a voice to workers in the running of companies. As part of our tax roadmap for business, Labour should look at what incentives firms can be given to spread control through their workforce and the communities that they operate within. We should also consider what more can be done to reduce legal and financial barriers to increase workplace democracy.

More could also be done at the start of the business journey to promote and encourage co-operative models. Many founders and entrepreneurs are unaware of the potential for more

participatory business models until it is too late and the legal structure of the firm has become relatively fixed. Making business founders and owners aware of the value of cooperative and social models of business at an early stage of their development could have a transformative effect. We can also learn from the initiative of Labour's metro mayors such as Dan Jarvis in South Yorkshire who has worked with the co-operative sector to create a new "South Yorkshire Ownership Hub."

The UK also has a strong family business sector, with over 5m firms considered to be "family businesses". Research by New Economics Foundation found that 120,000 of these businesses are at risk of closure every three years due to a lack of family members as successors.<sup>51</sup> Working with these businesses and providing models of ownership which can be transferred to workers, communities, or a combination of both, could help to keep businesses going with the benefits to employment and opportunity that these can bring.

Diversified ownership and encouragement of new models of business would also have the benefit of giving more of a voice to workers and communities directly.

## Access to finance

This pamphlet has noted the growing interest from investors through ESG funds into investing in companies which higher standards. The UK should be doing more to promote those standards of business by encouraging more co-operatives and social enterprises which can be considered high standard investment opportunities, and to turn the UK into a centre for inward ESG investment. Assets held by ESG investment funds may reach \$53 trillion by 2025 according to the latest research.<sup>52</sup> There is a first mover opportunity for the UK to bring that capital into our businesses before it flows to other countries. An Office for Sustainable Investment within the Department for International Trade, for example, could help to provide a single port of call for sustainable investors across the world to match them with those British companies which are governed for purpose and achieving high levels of social and environmental impact.

The UK Government can also accelerate that flow of investment through the right framework. One of the positive innovations of the past decade has been the creation of the British Business Bank, but this institution does not currently look at encouraging more purposeful forms of business in the UK.

The UK Government has created

other institutions such as Big Society Capital to look at ways to encourage investment into purpose-led businesses but currently the framework to support investment into purpose-led businesses is fragmented and there is no clear ambition or mission across all agencies.

Labour could help to bring a more joined up approach by providing a clear mission to institutions such as the British Business Bank to support purposeful businesses. The state has provided over £3bn in guarantees and investments into small businesses

## Competition and industrial policy

Brexit has put more focus on issues around trade, competition and industrial policy now that control has been put in the hands of Westminster.

If we are going to transition to a more purpose-led economy, Labour will need to encourage that this is reflected in our approach to trade deals, competition policy and industrial policy.

Labour has set the right tone by articulating an approach which will put high social and environmental standards into future trade deals. However, more will need to be done to create the space for social and environmental purpose to embed into the economy.

over the past decade and the UK Government could encourage firms that receive that support to look at improving their governance through the use of social and environmental purpose. Preferential terms could be given to businesses which commit to changes to their governance, and this could help spread purpose more quickly through the UK economy.

<sup>51</sup> New Economics Foundation, Co-operatives Unleashed, July 2018

<sup>52</sup> Bloomberg, ESG assets may hit \$53 trillion by 2025, a third of global AUM, 23 February 2021

At an international level, ensuring that there is fairness in reporting requirements across companies is important to ensure that investors and customers have accurate information about the social and environmental impact of the firms that they are buying from and investing in. This will ensure that UK firms are not undercut by less transparent competitors.

At a national level, ensuring the right balance and mix of firms is important to ensure that there is a constant upwards drive in performance. UK competition policy should not only consider market share of individual companies but also the balance of models within markets. For example, the presence of building societies such as Nationwide

in the financial service sector, and cooperatives in the form of the Co-operative Group in the retail sector, have had beneficial impact on those sectors. A wide variety of firms and a truly mixed economy should be part of the UK's approach to competition policy.

In terms of industrial policy, the UK government needs to consider how it can take steps to improve the governance and long-term decision making of UK firms. Repeated investigations such as the Kay Review, Cox Review and IPPR's own Commission into Economic Justice have identified short-termism as one of the barriers to better business performance. The UK should be using industrial policy to encourage purpose as a tool to drive better decision making and long-term value creation, social, economic, and environmental.

The recent Help to Grow scheme for small businesses could be expanded and better targeted for key sectors of our economy, spreading best practice and showing the power of purpose to drive better business performance.

These are just some of the levers that a Labour Government could deploy to encourage a more purposeful economy.

It is important that Labour does not lose sight of the wood for the trees in developing the next manifesto. The

policies that we articulate as a party need to drive forward a clear narrative for Labour that we understand the future of business, that we can be trusted to partner with business to build a better economy, and that we can see the way to achieve that is through improving the governance of British firms through the promotion of social and environmental purpose.

## LABOUR AS THE NATURAL PARTY OF BUSINESS

Labour is not and never has been anti-business or anti-profit. Supporting productive and profitable businesses is in the interests of their owners, managers, workers, customers, suppliers, communities, and the country at large. By helping improve living standards, sustain world-class public services and also provide a creative outlet for people to realise their aspirations and dreams, businesses can and must be part of the solution to what ails society.

The mission of a Labour Government should be to put in place the framework that enables every business and its workforce to achieve their maximum potential. This is a vision that looks at every sector of economy, from the creative industries to our foundational economy such as manufacturing, retail, health and care. The principles of a purposeful economy can help to get the best out of every part of our economy.

Labour wants to help every British business to be the best it can be, regardless of size, sector or location. We want Labour to be the natural party of business – a party that is pro-business as well as pro-worker, championing businesses which serve our people and our planet. The good news is that we have never had a better opportunity to be that.

This is a patriotic mission as well as a socialist mission, and one that the public can instinctively understand and vote for.

Our Party must be careful not to become hectoring or preachy in its approach to

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business. Yes, we are a party of workers and their trade unions, and the values of our Party are to promote a better society, to protect the environment and to reduce inequality. And yes, we will continue to call out businesses that act irresponsibly. But we do not serve the long-term interests of our country or our party if we seek only to moralise about business.

Labour is at its best when we combine strong moral values with a practical, evidence-based programme for government.

Our programme for government must include a clearly articulated vision of what a new and more sustainable economy would look like under a Labour Government, and at the heart of that vision must be more and better business.

Labour Business is here to work with the Labour Party to achieve that – leading the way on business engagement and helping collect evidence from the business frontline to underpin the policies that will deliver it. We hope that this pamphlet will make a contribution to that effort. Without a new and better economy, we cannot realise the vision that Sir Keir Starmer has outlined for a country which is the best place to grow up in and the best place to grow old in.

Celebrating 50 years of  
**LABOUR BUSINESS**

