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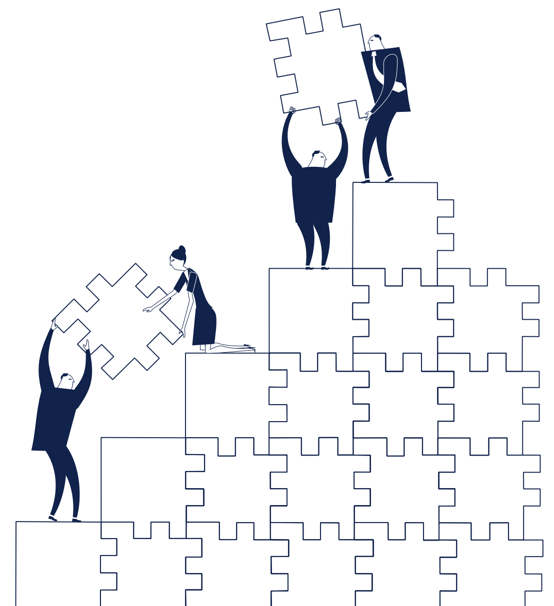
Governing for Impact: Managing Mission-Driven Organizations Through Stages of Growth and Investment

Marta Maretich
Consultant for OnBoard at Bates Wells and Braithwaite

Jed Emerson
Associate Fellow, Saïd Business School, Oxford University and Senior Fellow, CSI-Heidelberg University, Germany

Alex Nicholls
Professor of Social Entrepreneurship, Saïd Business School, University of Oxford



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Governing for Impact: Managing Mission-Driven Organizations Through Stages of Growth and Investment

Marta Maretich, Jed Emerson and Alex Nicholls
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Summary
Mission driven businesses—here defined as businesses that are managed to produce financial returns alongside intended social or environmental benefits—face many challenges as they grow past the "angel" stage and scale up into fully-fledged corporations. These include all the developmental challenges met by ordinary for-profit businesses and, in addition, the unique challenge of preserving mission as they grow. An emerging body of research, plus an increasing level of first-hand management experience across several sectors, reveals that *governance* offers a framework that can help blended bottom line companies manage some threats to mission and avoid "mission drift" during the growth stage.

Drawing together current learning from the field, sector research and material gathered through interviews with a number of leading practitioners, this paper seeks to demonstrate some ways mission-driven businesses can use governance to manage the pressures of change and preserve mission as they scale. It highlights a number of factors that can lead to erosion of mission in the growth stage, including changes to legal form, changes in leadership, especially in the role of the founder, and changes to board composition, in particular the advent of influential investors in decision-making roles. And it suggests how, through governance practice, businesses can develop the internal governance structures, processes and systems that will help them cope with the pressures of growth and, at the same time, work to embed mission in the DNA of the developing organization.

Introduction
The way the world does business is changing before our eyes. Once the ideal of a few visionaries, the concept of the socially and environmentally beneficial company—one that produces a blended value[1] result of financial returns *and* impact—now seems attainable to businesspeople and investors alike. Businesses conceived of and intentionally managed as socially beneficial entities are springing up everywhere. Sustainability is now on the agenda for multi-national corporations and a widening pool of private, mainstream and institutional investors are seeking opportunities in what is a rapidly expanding marketplace.

Despite its growing popularity, there are still many challenges when it comes to establishing the blended value approach as a standard way of conducting business. Some of these have to do with large-scale market infrastructure issues. For example, the G8 Social Impact Investment taskforce identified issues such as regulatory barriers, a lack of sector data and the need for better metrics, all of which must be addressed at national and international levels (Social Impact Investment Taskforce, 2014).

1 Introduced in 2000, Blended Value is the concept that value is fundamentally non-divisible, consisting of financial, social and environmental components integrated within a single value proposition, potentially generated by any organization (non-profit, for-profit or hybrid) and capital type (philanthropic, near market and market rate). A complementary concept, Shared Value, introduced in December 2006, focuses primarily upon larger corporations and is viewed by many as distinct from, yet an extension of, corporate social responsibility (CSR) practices.

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Some of the challenges, however, have their origins—and their solutions—much closer to home. They lie within the organizational structures, leadership and decision-making processes of the businesses themselves. This brief issue paper concerns itself one of these: Mission-drift and what blended value businesses can do to keep it from happening as they grow and develop.

Mission drift and the pressures of growth

Mission-drift, the loss of focus on social and environmental aims, has been identified as a problem for blended value businesses (Alnoor, Battilana & Mair, 2014). A business that starts life as a social enterprise, in which mission-related goals go hand-in-hand with business ones, often ends up, somewhere down the road, as an ordinary business in which only financial performance really matters. Social and environmental impact may still be a superficial part of the brand, but it is no longer central to operations or meaningfully reflected in performance results. How does this happen?

In some ways, the recent popularity of social investing may be a contributing factor. The increased interest from mainstream and institutional investors in managing for sustained impact offers socially beneficial businesses new possibilities for growth. But even as the availability of investment capital makes it possible for them to realize scale, the pressures that come with scaling may act to encourage (or, in some cases, force) blended value businesses to consider financial factors over mission, leading to mission drift or even the abandonment of mission in favor of the pursuit of financial performance.

The potential to prioritize finance over impact factors may consistently be at play in the management of blended value businesses. Yet it is as companies seek to grow—to attain greater scale—that they appear to be particularly vulnerable to mission drift.

Organizational development literature has established that scaling brings with it multiple challenges to any business (Greiner, 1972). These include increased reporting and accountability demands, the need to formalize management and operating processes, and the need to develop complex systems, re-invent strategy and expand operations. Changes to management at this point may mean significant changes in overall organizational leadership, especially when it comes to the role of the founder, but also in the constitution of board membership. New influences, in particular the presence of powerful investors with voting positions on the board, bring new pressures to bear on strategic direction and organizational culture.

These factors make the growth stage a critical time for ordinary for-profits; for blended value businesses, the challenges of scaling are even greater. Not only must they clear all the hurdles confronting traditional for-profit entities as they carry out the intense work of expansion, but they have to preserve social and environmental impact while they pursue organizational sustainability.

This returns us to the fundamental question:

What can blended value businesses do on a practical level to protect mission through the critical scaling stage of organizational development?

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Governance: a framework for embedding mission

In this paper, we attempt to demonstrate some of the ways *governance*—"the systems and processes concerned with ensuring the overall direction, control and accountability of an organization" (Cornforth & Brown, 2014)—may provide an answer to this question.

When the topic of governance comes up, there's a common belief that it relates primarily to issues of compliance—what businesses need to do in order to satisfy regulatory requirements, tick boxes and file necessary paperwork. In fact, governance provides the means for organizations to develop the top-level strategic leadership that allows for growth and makes for success in a competitive environment.

Good governance is key to the health of all businesses. For companies with a mission component to their strategy, such as non-profits, social enterprises and blended value businesses, governance is even more important because it helps them keep a grip on mission. It is the "internal means through which governing boards and managers ensure that organizations remain focused on their social goals" (Chait, Ryan & Taylor, 2005). A growing number of investors and corporate managers, supported by an evolving body of academic research[2], now understand that the blended value businesses that "get" governance and learn to use it as a tool for strengthening leadership, strategy and operations have a greater likelihood of staying ahead of the curve when it comes to developing an organization that can withstand the stresses of growth with mission intact.

Governance offers a range of opportunities to preserve mission and embed it at the heart of strategy through the often-turbulent scaling stage. It provides a framework for creating the internal structures and processes needed to balance a range of new forces and influences that crop up at this time. It eases the transition from founder-centric small enterprise to a more mature, multi-stakeholder corporation (Alnoor, Battilana & Mair, 2014). And it helps businesses factor in mission when developing the strategic systems—such as engagement, monitoring and reporting—that will allow them to deliver both profit and benefit.

Not only does skill in governance have internal benefits for blended value businesses, it brings external benefits as well: Governance is now emerging as a key factor in how investors perceive an organization's potential for investment.

Poor corporate governance was, we now know, one of the chief causes of the 2008 financial crisis (Kirkpatrick, 2009). Trust Across America, an initiative to restore the trust in business, includes governance as one of five areas to address for rebuilding trust, goodwill and credibility across the business sector. Partly as a result of lessons learned from the crash and its aftermath, the "G" in ESG—governance—has become one of the most most-studied aspects of the three measures of sustainability. It is now, rightly, the preoccupation of many investors.

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[2] A review of research on this topic is beyond the scope of this paper. To learn more, please see the research and publications pages of the United States Social Investment Forum (US-SIF) http://www.ussif.org/pubs.

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Investors see good governance as a mark of competent management as well as an indicator of potential future success (Deutsche Bank Climate Change Advisors, 2012). They are eager to understand governance factors because they see them as a means for mitigating financial and, importantly, extra-financial risk. For these reasons, the governance practices of all kinds of companies are coming under increasing scrutiny by investors. A poor record on governance, or the failure to provide credible information about governance, are top reasons for investors to say "no" to one investment opportunity while they say "yes" to another (EY Climate Change and Sustainability Services, 2014). Blended value businesses at all stages of development would be wise, therefore, to raise their governance game and do more to meet investor demands for more governance transparency.

Raising awareness of governance

Corporate governance is a large and complex subject that touches every aspect of organizational activity. When it comes to the governance of blended value businesses this already-complex topic is made even more challenging by introducing the question of mission. Our sector is learning rapidly, but the implications for governance in what is a relatively new model for doing business are only beginning to be fully understood (Spear, Cornforth & Aiken, 2009).

This short paper is, then, not intended as a comprehensive guide to good governance practice for blended value businesses. Rather, it assumes that companies will be familiar with standard corporate governance practice and have access to guidance on such fundamental governance issues as establishing governing boards, structures and systems. Those seeking a more thorough overview of governance should start with *The Governance of Social Enterprises: Managing Your Organization for Success* (Achleitner et al., 2012) published by the Schwab Foundation for Social Entrepreneurship. Additional resources are cited throughout this paper.

Our purpose in this paper is primarily to raise awareness of governance as a means of addressing some of the factors that can lead to mission drift during the growth stage in for-profit businesses with a mission component. Our target audience includes social entrepreneurs, social enterprise accelerators and impact-oriented investors who seek to support mission preservation in businesses as they grow. It is our hope that government agencies developing the field of "profit with purpose" business, as well as MBA programs training the business leaders of tomorrow, will also find the following report of use. Finally, the report's insights may prove useful to governance consultants and trainers who work directly with the boards of blended value businesses.

The contents of this paper

For the benefit of this audience, our paper highlights certain innovations in mission-friendly governance practice. Some of these are arising in the blended value business sector where field experience and research are beginning to reveal practical lessons and mission supportive legal forms are evolving. Other lessons are emerging elsewhere:

- From the non-profit sector, where mission stewardship has always been a governance responsibility.
- From technology start-ups. In common with social enterprises, these tend to have passionate founders who, though they bring vision and energy to their

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young companies, can become a source of governance challenges when the business starts to grow.
- From mainstream corporations, where the rise of sustainability and ESG integration is changing the way managers and investors are engaging with extra-financial performance, with governance implications.

In Section I: *Governance Lessons from Leading Impact Funds*, we begin by exploring the lessons that can be applied to mission-driven businesses from the Mission First and Last model identified in a study of successful impact investing funds. Section II: *Choosing a Legal Form That Supports Mission* provides an overview of the mission-protective legal forms currently available to businesses and explains why, though valuable, they are not in themselves sufficient to protect mission as organizations grow.

Section III: *Establishing Mission Leadership at Board Level* examines some of the governance challenges the growth phase brings to blended value businesses, including the need to transfer mission responsibility from the founder to the governing board and the importance of finding a mission-wise chair to lead the board. Section IV: *Challenges of a Changing Board Composition* deals with the dynamics of introducing investors into strategic decision-making roles, and highlights strategies for keeping these influential people supportive of mission.

Section V: *Performance Monitoring for Mission* shows the importance of tracking mission performance alongside financial performance and gives some pointers on how to set up a useful mission monitoring system at board level. Section VI: *Reporting for Mission* discusses how the new forms of integrated reporting can help protect mission, and outlines the board's role in choosing reporting strategies that keep the business on track to deliver a double bottom line. Finally, Section VII: *Formalizing Board and Executive Accountability for Mission* draws lessons from the large corporations that are embedding sustainability into governance systems by taking steps to make executives and the governing board increasingly accountable for performance.

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Table 1: The evolution of governance through stages of development

Stage of Development	What's happening in the organization?	Governance profile
Start-up stage	Blended value businesses usually start with an individual or very small team who share an idea about using business to bring benefits to society.	Governance at this stage is negligible if existent at all. Decisions are typically made by the founder or founders. Founders are accountable only to themselves and any early sources of capital such as family, friends, and sympathetic small investors. Mission is at the heart of the business.
"Angel" stage	Early investors, often impact funds, intermediaries and angel investors get involved. There's commonly a philanthropic edge to investment and a clear relationship between mission performance and capital support.	With the first investing partner, the organizations takes its first steps in governance, formally constituting a board of directors and beginning the process of establishing formal governance systems. The founder often serves as board chairman at this stage. Early board members often include friends and family but may include early, mission-friendly investors. In preparation for the next stage, board members with strategic expertise should be recruited now. Monitoring, documentation and reporting begins in earnest, with an eye to future growth and investment.
Growth stage	With demonstrated growth potential, the business looks beyond the support of family, friends and early stage mission investors. Securing capital may mean reaching out to venture capitalists and other mainstream investors, or changing the terms of involvement of early investors. New investors may be mission neutral: Less interested in the social benefit than business opportunity. Other partners, such as government agencies, may come into the picture, bringing different sets of priorities.	Sophisticated governance processes and systems, including monitoring of mission and financial performance, are needed to handle the increasing operational complexity, and escalating accountability and reporting demands. The organization may adopt a new legal structure. The board may be restructured to ensure that there are a majority of independent directors and to make room for directors appointed by investors. An independent chair should be appointed. The founder may remain active in a leadership role, but responsibility for both mission delivery and financial accountability shifts to the governing board and top management.

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Section I: Governance Lessons from Leading Impact Funds

In our book, *The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism* (Clark, Emerson & Thornley, 2014), we identified four key elements distinguishing the most successful impact investing funds. We found a central element of successful impact investing to be the concept of "Mission First and Last", an approach that incorporates mission into operational strategy and links it securely to financial performance.

Mission First and Last involves establishing financial and mission intentionality early in the fund's lifecycle, then using organizational structure and strategy, along with tracking and reporting, to keep mission at the heart of operations and ensure the delivery of both mission and financial performance at the end of the investment cycle.

In our research, governance emerged as the means for realizing Mission First and Last in successful impact funds. It plays a vital role at every stage of organizational development, but particularly in establishing "mission-protective" governance structures and incentivizing mission delivery across the organization.

- ✓ Through governance, impact funds were able to foster "internal alignment" by enacting organizational strategies that ensured that the entire staff, board and other stakeholders "are on the same page and working collaboratively toward shared goals," including mission-related goals.

- ✓ Governance was effective in creating "external alignment"— communicating and collaborating with forces outside the organization, including stakeholders such as regulators, policymakers, investors, investees and community members.

- ✓ Governance structure and strategy were found to reflect the way a company viewed its own extra-financial mission, and that self-definition had an impact on the way the organization was seen by outsiders. Our research underscored the importance of thinking "clearly about the messages that (a) particular governance strategy sends, and the incentives it creates."

Impact funds and mission-driven businesses are far from identical, yet there are important similarities between them and lessons to be drawn from the one to the other. Like impact funds, mission-driven businesses must forge clear connections between mission intentionality and accountability while demonstrating both financial *and* impact performance. Like them, they are typically working with a range of stakeholders, including a number of influential investors, who may have highly diverse motivations and expectations.

In both cases, governance holds the key to succeeding at what can be a tricky balancing act of keeping mission central to strategy while simultaneously delivering financial performance. Through governance, both businesses and funds can achieve internal and external alignment around mission and ensure that mission remains central to a company's identity as well its reputation and brand.

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Section II: Choosing a Form That Supports Mission

Choosing a legal form is often a first step in establishing a business capable of delivering both on mission and financial performance. Legal form determines governance structure to a significant degree, and so the choice of form has profound implications for governance practice and the organization's ability to prioritize mission. So key are forms that the recent Social Investment Taskforce Mission Alignment working group focused exclusively on legal forms as a means of creating "profit-with-purpose" businesses of the future (Mission Alignment Working Group, 2014).

Recognizing their importance, the social investment sector has worked to develop specialized legal forms intended to foster the growth of blended value business models. Over the past decade, a variety of networks have been created to promote mission-driven enterprise development through diverse legal forms. These include The Fourth Sector Network, Social Venture Network, BALLE and others. As a result of these efforts, there are now a number of specialized legal forms, some of which explicitly safeguard mission and, crucially, give directors protection for making decisions for extra-financial reasons.

Having a choice of suitable, mission-supportive forms fulfils an important function for blended value businesses since research indicates that changes to legal form are a natural part of their pattern of growth. As governance researcher Judith Mayer pointed out in a recent interview,

"What I see among social enterprises is a lifecycle, an evolution. Many start as non-profits but then they want to scale the business and so they seek out for-profit investors. At this point, they need to change forms. In this way, a non-profit may turn into a for-profit and then, in the end, it might turn into a hybrid that combines both forms" (Mayer, 2014).

Each of the specialized legal forms has its proponents and critics and a full discussion of their pros and cons is beyond the scope of this brief.[3] Yet each represents an attempt to provide a legal basis for blended value businesses that seek to put mission and financial performance on a more equal footing. Additionally, by adopting one of them, businesses send the message to investors, the public and other stakeholders that they are serious about delivering benefit with profit.

Specialized Legal Forms

Benefit Corporation

Currently recognized in 28 US states and the District of Columbia, the benefit corporation form offers legal protection to the company's social goals by mandating considerations apart from profit. It gives company directors the secured legal protection they need to consider the interest of all stakeholders, not only the shareholders who elected them.

[3] For a fuller consideration of the question, see Richard Cohen's article, Some Unanswered Questions About Benefit Corporations, L3Cs and Social Enterprise More Generally. Retrieved from https://nonprofitquarterly.org/management/24088-some-unanswered-questions-about-benefit-corporations-l3cs-and-social-enterprise-more-generally.html.

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- Specific societal and environmental "benefits" are included in articles of incorporation and pursued as part of corporate mission.
- The board of directors and officers consider the impact of every corporate decision on those societal and environmental benefits.
- The company adopts third-party standards against which the board is required to measure its achievement of the prescribed societal and environmental benefits.

Low-Profit Limited Liability Company

The L3C is a hybrid business form that provides a way to combine a socially beneficial mission with a for-profit business entity. A variation on the Limited Liability Company (LLC), the L3C is designed to take advantage of both non-profit and for-profit sources of capital, specifically Program Related Investments (PRIs) from foundations, by using a tiered capital structure.

The potential advantage of the L3C form is that it's highly flexible, allowing the structure of social businesses to be tailored to combine mission and financial performance. However, the IRS has still not ruled whether private foundation investments in L3Cs qualify as PRIs. In 2014, the state of North Carolina abolished the L3C due to doubts regarding federal acknowledgement.

Social Purpose Corporation

Formerly called the Flexible Purpose Corporation (FPC), the Social Purpose Corporation (SPC) is a corporate form only available in California. Like the FPC it grew from, the SPC was designed to provide companies with flexibility to pursue charitable and public purpose activities as well as profit. New amendments in 2014 require directors to consider factors such as the overall goals of the corporation and the social purposes stated in its articles in their decision-making.

Community Interest Company (CIC)

A Community Interest Company is a form of company specifically created for the social enterprise sector in the UK. CICs are required by law to have provisions in their articles of association to enshrine their social purpose, specifically an "asset lock", which restricts the transfer of assets out of the CIC and a cap on the maximum dividend and interest payments it can make. A CIC may convert into a charity or into a Community Benefit Society or it may voluntarily dissolve but once established it may not convert into a standard limited company.

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The Rise of the "Dissenting Hybrid"
Many social enterprises identify either as pure non-profits or pure for-profits and consequently they adopt the governance structures and practices typical of these forms. A recent study of governance in social enterprises identifies as set of new types of social enterprise, the "dissenting hybrids", organizations that are creating novel board structures and governance systems.

- **Benetech,** an organization providing technology solutions to disabled and marginalized people**,** includes representatives of both business and social sectors on their board and makes it clear that the board is responsible for ensuring social mission as well as financial viability.
- **Compartamos**, a microfinance organization, splits accountability within the board.
- **Homeless World Cup**, an organization addressing homelessness, established a single governing board to oversee and monitor the activities of two legally separated organizational entities, one for-profit and one non-profit. The same board has back-to-back meetings dealing with each part of the organization.

These innovations reflect the commitment of these organizations to differentiate themselves from traditional for-profits and non-profits and to become, at every level, authentically new kinds of organizations. The early adopters of these new frameworks may be offering us early glimpses of future governance approaches that protect mission through the stages of development.

(Mair, Mayer & Lutz, 2014)

Innovating With Standard Forms

In addition to the specialized legal forms, the practice of adapting standard corporate structures is beginning to gain currency the social enterprise and mission-driven business sector, especially among companies that are seen to have significant growth potential.

One such approach involves creating tandem structures. Tandem structures establish two distinct legal entities, one non-profit, one for-profit, within a single organization. They are distinct from legal forms such as the benefit corporation and the L3C, which combine non-profit and for-profit characteristics within a single legal entity and are thus often called "hybrid" forms. Tandem structures are typically tailor-made depending upon the charity and the business. They can be legally complex, and consequently expensive, both in structural formation and in operation. (One consultant we interviewed reported providing more than $750, 000 worth of pro-bono counsel to help two organizations establish a single tandem structure).

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Tandem entities typically have two separate governing boards, each one working, respectively, along conventional for-profit or non-profit lines. The relationship between these two boards, including their duties with regard to mission accountability, are defined in the company bylaws. Overlap of directors between the two boards is often built in an effort to ensure that the two entities "will stay aligned in their parallel missions" (Mittermeir & Neugart, 2011). Popularized by high tech start-ups, tandem structures are becoming more common among scaling social enterprises and they are proving attractive to investors.

In another development, standard-from corporations are seeking BCorp certification in an effort to cement their status as mission driven or socially beneficial businesses. BCorps are companies that have qualified for certification by the non-profit, BLab, not to be confused with the benefit corporation, which is a legal form.

The BCorp is not a legal form and extra-financial reporting requirements are lower than for benefit companies. Yet to attain certification, companies must meet basic standards in mission governance practice. These include formulating a mission statement and establishing a board of directors (beyond the management team) that meets a minimum number of times per year. It remains to be seen whether these standards go far enough to maintain extra-financial issues as a priority for BCorp certified businesses as they mature. Yet the certification process does encourage companies to take first steps toward establishing durable mission governance systems.

Meanwhile, the innovation of "founders' preferred stock" offers yet another approach to safeguarding mission in the growth stage while using a standard corporate form or tandem structure (see box).

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Mission anchoring with founders' preferred stock

"There's been a crying need for a middle solution when it comes to legal forms. We have prototyped a brand new structure that adapts an innovation created in 2008 called *founders' preferred stock*.

Founders' preferred stock was originally created to provide founders with less-dilutive means for some liquidity prior to an exit transaction. It is becoming widely accepted by institutional investors in Silicon Valley start-ups.

For social enterprises seeking mission-anchoring devices other than using new statutory models, we have crafted the mission into the articles and the bylaws and provided the founder's preferred stock with negative control over changes to those provisions. The feature is similar to the negative control features, or veto power, typically granted to venture capital investors, albeit limited to changes to mission.

This leaves the mission-anchoring decision in the hands of the founders, not the board or the shareholders in general. We've learned over time that this becomes a very valuable tool in negotiating what terms and exits are going to include. Yet it doesn't put investors at risk for the 'rogue founder' as with other solutions such as super-voting stock. In fact, investors, including venture capitalists, are willing to fund into this model because they see it as part of the authentic brand they are creating for a millennial generation that really cares about social benefit" (Johnson, 2014).

R. Todd Johnson,
Partner and Practice Leader for Energy
at Jones Day Partners

Why Forms Aren't Enough to Preserve Mission

Specialized legal forms and innovative tweaks to standard corporate forms can offer important structural support for mission governance in growing businesses. However, neither approach provides the whole answer to the question of mission survival in the growth stage.

First, this is because companies may not use them. The new legal forms are still in an experimental phase and lack broad acceptance (Alnoor, Battilana & Mair, 2014). Many founders and governing boards still opt for traditional legal forms associated with non-profit and for-profit organizations, even though these forms may not meet their needs (Alnoor, Battilana & Mair, 2014). Investors, too, can show strong preferences for standard forms and will apply pressure to get investees to adopt them over ones that may be more mission-supportive (Johnson, 2014).

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Second, adopting the new forms and approaches cannot, by itself, ensure mission preservation. According to the authors of a recent report on mission drift in hybrid organizations:

> "…while newly introduced legal forms surface and try to speak to (the challenges of balancing mission and financial performance) social enterprises are unlikely to resolve them in the absence of explicit organizational governance processes and mechanisms that ensure that overall direction, control and accountability of the organization" (Alnoor, Battilana & Mair, 2014).

In other words, adopting one of the specialized legal forms (or, we would add, adapting a standard one) may provide a starting point for creating an organization capable of protecting mission though stages of growth and development. However, only by establishing effective governance systems and practices can businesses of any kind reliably deliver on both mission and profit. In the sections that follow, we'll discuss some of the reasons why this is the case, and highlight specific areas where mission stewardship can be built in to the processes of governance at the growth stage.

Section III: Establishing Mission Leadership at Board Level

The growth stage brings many challenges to blended value businesses and one of the most significant in terms of mission preservation may arise from the changes to leadership, especially to the role of the founder, that occur at this time.

In all kinds of early-stage businesses, it's common for the founder to provide leadership for all aspects of the organization (for example, he or she often serves simultaneously as CEO and board chairman). At the point when companies begin to grow, however, things change. From this moment onward, the involvement of the founder with the company must evolve as much as the firm itself does. At this point, formal governance systems and processes are created to take the place of the more informal ones used through the start-up phase. They build upon, and in some ways take over from, the individual leadership that has been so far provided by the founder.

The transfer of responsibility from the charismatic individual to the collective governing board is one hallmark of a larger shift toward a more systemized, collaborative approach that needs to take place in all businesses as they grow (Clark, Emerson & Thornley, 2014). Yet for blended value businesses it can signal a risky moment for the mission. Often the founder's leadership—his or her passion and vision—is what establishes the clear connection between the business and its mission in the first place. As the leadership shifts from founder to governing board, new ways need to be found to embed mission in the systems that will provide direction for the business from this point on.

Shifting leadership from founder to board can be a challenge for all kinds of organizations but it may present a particular hurdle for mission-driven businesses. The figure of the founder looms large in the beneficial business world, above all in the for-profit social enterprise sector, encouraged by a high number of prizes and programs aimed at individual entrepreneurs. Partly as a result of such well-meaning support efforts, some founders have risen to personal prominence alongside their blended value companies, becoming public faces for their businesses, ambassadors for their

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brand with high media and field level visibility. At the growth stage, such over-emphasis on founders can create the conditions under which so-called founder's syndrome can arise.

Founder's syndrome—when founders try to hang on to control to the detriment of the organization—has been widely identified as an issue for non-profit and for-profit organizations. Recently, it's emerged as a concern in the world of tech start-ups, where founder identification with the business or product is often as passionate and personal as that of social entrepreneurs (Linnell, 2004; Rowat, 2007).

The common thread in founder's syndrome across sectors is the type of person who establishes a non-profit, tech firm or mission-driven business. In all instances, these individuals tend to be driven people with a sense of personal mission that translates to their organization. They are, understandably, highly identified with the organizations they create, and this personal sense of commitment is often critical to bringing the organization through its early growth stages.

When the founder won't embrace change
"Strength of character is essential to driving the company through the many challenges to success, (but) it has a dark side. Many entrepreneurs believe they have all the answers and resist advice. They also over-rule decisions with which they do not agree…This behavior typically prevents the company from growing larger than the small size defined by what can be accomplished by a single, driven founder. Often it causes the company to become one of the 80% that fail to achieve their expectations." (Rowat, 2007)

David Rowat, from earlystagetechboards.com

There's no doubt the founder *is* central in the early days of a blended value company. Later, during the growth stage, the he or she may retain leadership importance to a significant degree. We also heard anecdotal evidence that founders, with their charisma and persuasive ability, are key to attracting investor capital during the scaling stage (Johnson, 2014).

Yet a founder who is over-identified with his or her business can become a problem at the growth stage. At this point, businesses need to replace individual leadership with corporate leadership, establishing the governance systems and processes required by larger, more complex, and necessarily more accountable, organizations. Founders who cannot or will not let go of personal influence when this moment arrives inadvertently endanger the future of their organization and its mission with their determination to stay in control.

"Social enterprises and social businesses need even stronger boards and governance systems than for-profits do because they have more to protect in the mission and also have to deal with a more powerful sense of identification of the founder with the mission and the organization". (Noble, 2014)

Abigail Noble, World Economic Foundation

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None of this may ultimately be the founder's fault. In fact, rather than being seen as a failure on the part of the founder, founder's syndrome is coming to be understood as a failure of a wider organizational leadership that allows a focus on the founder to distract from a focus on business strategy and mission (Schmidt, 2013). Businesses that neglect to create governance systems to provide adequate leadership through the growth stage create a climate where founder's syndrome (among other issues) can adversely affect the business.

Good governance practice provides a way for organizations to make a smooth (or at least smoother) transition from founder-led to governing board-led organization. Establishing a strong, unified, independent board with robust accountability and decision-making systems makes companies capable of avoiding some of the worst negative impacts of founder's syndrome without destroying the positive benefit the founder brings to the organization or sacrificing the connection between mission and business established by the founder. [4]

Furthermore, with mission a signature element of founder leadership, it needs to be incorporated into the oversight, monitoring and reporting systems used by the governing board to keep the business on track to deliver a blended bottom line.

Appointing a mission-wise Chair

In early days of a blended value business, the founder often serves as board chairman (see Table 1). However, as the business grows and the role of founder changes, current thinking on organizational development practice says the organization should appoint an independent chair.

There are many good reasons for this. Role separation resolves a potential conflict of interest arising from the fact that the CEO is the primary manager of a company and the chairman is the head of the board, which oversees management (Hodgeson, 2014). Separating the roles strengthens the system of checks and balances and enhances the appearance (and hopefully, the reality!) of board independence. Splitting the roles is widely considered to be a best practice in corporate governance, though its benefits remain controversial in some circles, notably in parts of mainstream, corporate America. Many investors, however, tend to see an over-concentration of power in the hands of the founder as a potential strategic risk and favor role separation (Tonello, 2011).

The mission relevance of the chair's role has long been recognized in the non-profit sector where facilitating mission delivery, through managing and organizing the governing board's mission-related work, has always been central to the chair's role (Akpeki, 2006). Appointing a new board chair, then, may come to be seen as a potential milestone for mission preservation in blended value businesses.

[4] Good governance has benefits for founders, too. The founders of social enterprises often endure inadequate remuneration, lack of benefits and unsustainable workloads for the sake of the mission. They shoulder the blame for organizational failures, sometimes unfairly. Good governance practice helps protect the founder from the excessive demands of an organization by providing the board oversight that ensures fair treatment and remuneration.

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As part of his or her practical, often mundane, role the chair exerts a powerful influence over the functioning of the governing board. The chair calls meetings and sets agendas, deciding what the board will discuss and when. He or she establishes committee structures, manages the flow of information to directors and facilitates discussions in the boardroom. S/he is often influential in recruiting and inducting new directors and staffing committees. Finally, board chairs often provide an important link between the board of directors and the chief executive.

Having the conversation

"It's important for boards to discuss the tension between fulfilling mission—which is linked to values—and carrying out business for profit. The two aren't mutually exclusive, but there may be a tension between them.

Boards need, first of all, to have a conversation about how they will respond when that tension surfaces in the course of board business. They need to agree how they will handle it. A good chair can facilitate that initial conversation and lead subsequent discussions to address tensions around business and mission when they emerge." (Akpeki, 2015)

Tessé Akpeki, OnBoard Governance Consultant, Bates Wells Braithwaite

Even this dry description should suggest the centrality of the chair's role to successful corporate governance of the kind needed by growing businesses. Furthermore, the influence of the person fulfilling this role can be critical to the maintenance of mission within a thriving blended value venture. It stands to reason that, through choosing a chair who understands and backs the organization's mission, organizations can strengthen mission stewardship in the boardroom and thus help avert mission drift.

Commitment to carrying the torch of mission is only a starting point for a chair. The chair's skills, personality and behavior will determine his or her effectiveness. A capable chair should come with first-hand knowledge of the sector or industry the business is operating in, proven leadership skills and an understanding of board process. In mission-driven businesses, the chair will also need a firm grasp of mission in the practical sense, experience in delivering mission in a business context and a commitment to ensuring that mission has its place in board discussion and decision-making at every level (Shekshnia & Rowley, 2014). A mission-capable chair will know how to keep mission on the agenda, how to generate productive group discussion around mission and how to foster a positive board culture with a shared sense of purpose.

Establishing an advisory committee

Blended value businesses are often created to meet the needs of a particular group of stakeholders or beneficiaries. In the early stages of development, the business tends to engage more or less organically with these stakeholder groups. It's not uncommon for

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representatives from such stakeholder groups to occupy voting seats on the governing board of early-stage businesses (See Table 1).

At the growth stage, investors often call for changes to the composition of boards in blended value businesses. In some cases, this may mean stakeholders lose their board positions to be replaced with "independent" directors approved by the investors. This process can contribute to a loss of what was once a natural connection between the mission-driven business and its stakeholders, and it can contribute to an erosion of mission focus at the board level of an organization (Ramani, 2015).

One way mission-driven businesses can counteract the negative effects of this change is to establish an advisory committee or advisory board that includes stakeholders. Non-profit organizations frequently use this approach to involve beneficiary groups, clients and other stakeholders in strategy formation without giving them voting positions on the governing board (Achleitner et al., 2012). An advisory board can help the organization gather information, keep in touch with impacts, and test stakeholder views while avoiding the trap of creating a board that's too big or one whose members lack strategic skills. While lacking voting authority, at the very least such outside stakeholder groups may act as canaries in the coalmine, able to speak truth to power and call attention to corporate practices of any sort that are inconsistent with the broad mission and intent of the firm.

Advisory boards can also offer a way to tap into specialist expertise that may be missing from the main board group. Advisory bodies convened temporarily around a specific project or issue can feed findings back to the larger board and help shape strategic decisions (Ferrari, 2014). Angel investors who don't insist on a voting seat on the board may contribute insight and strategic expertise through participation an advisory board (Achleitner et al. 2012).

To work effectively, advisory bodies need to form part of the overall governance strategy established at the highest board level. This means that they must be formally established, provided with a chair and a written brief, as well as criteria and processes for recruiting appropriate stakeholders. Safeguards need to be put in place to ensure the independence and accountability of the advisory board: it's naturally possible for such bodies to become co-opted and rubber stamp actions of a main board and staff run astray. Finally, there need to be clear systems for accountably feeding advisory board views back into the strategic deliberations of the main board group.

For more about establishing and staffing advisory boards, see Nancy Axelrod's useful book *Advisory Councils* from BoardSource Publications. Though aimed at nonprofits, its guidance also has applications for blended value governing bodies.[5]

[5] Available online from BoardSource at http://www.amazon.com/Advisory-Councils-Committee-Series-5/dp/B002DBUFSQ

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Making the best use of advisory boards
"In my experience, the advisory board mechanism may work best if it's project-related. When people are focusing on a project, they bring a lot more discipline. The most useful projects for advisory boards are those that address long-term strategic opportunities for the organization. For example, there might be people on our main board that have a general knowledge of a subject like impact investing, but the advisory board provides us with networks, connections and deep expertise. We can bring them in on an episodic basis. Once the decisions are made, they can move on to other things. Otherwise, the advisory board becomes a sort of governing board in waiting, and that's not useful." (Ferrari, 2014)

Pierre Ferrari, CEO of Heifer International
and Board Member for Ben & Jerry's

Section IV: Challenges of Changing Board Composition

As we've seen, the growth stage typically brings significant changes to the composition of the governing boards of all businesses. For blended value businesses, these changes, if not handled strategically, can result in challenges to mission that come from the decision-making heart of the organization: The governing board itself.

Ideally, a blended value business will begin developing its board during the supportive "angel" stage, recruiting mission-affirming board members with strategic skills (see Table 1). Yet many companies arrive at the growth stage with boards that are not prepared to meet the challenges of growth (Achleitner et al., 2012; Rowat, 2007). They may consist of family members and friends of the founder who rubberstamp his or her decisions. Or they may include stakeholders who, though they bring a community perspective, lack the skills needed to handle the increased strategic and oversight demands that come with growth.

The expansion of the social, sustainable and impact investing sector means different kinds of investors are now entering the market and, consequently, entering into financial relationships with blended value businesses (Asset Allocation Working Group, 2014). Tapping into this new pool of capital—including venture capitalists, mainstream and institutional investors—can force significant changes to board composition and this, in turn, can have an impact on mission.

Increasing investor activism is an important trend across the world of business (Conference Board, 2014). In a development that affects blended value companies as much as others, investors are now commonly demanding board seats as a condition for investment and so are exerting more influence over governance matters than ever before (Cloyd, 2015).

It's becoming standard practice to require wide-scale board restructuring at the point of investment, too. This can mean that early-stage directors, especially friends and family of the founder, may find themselves pushed out of decision-making roles and replaced with investor-approved appointees. In an extreme development, so-called

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activist investors deliberately set out to change the leadership, strategy and operations of the companies they invest in (Gandel, 2015). Although not yet in evidence in the social or impact investing sectors, the activists have been successful in traditional arenas. Their example is shifting the behavior of other investors and companies toward more activism.

Active investors in the boardroom

The trend toward investor activism means that accepting growth capital can lead to rapid, radical change in the boardroom and this, in turn, has an impact on mission. Contributing to the challenge is the collaborative nature of the financial arrangements for many blended value enterprises. These frequently involve a number of different investors, sometimes coming from very different organizational cultures. The resulting governing board may consequently be made up of voting members with widely varying objectives and requirements, some who are more forceful and uncompromising than others.

All this underscores the volatility of governance at the growth stage and highlights the need to find ways to ensure mission protection through what can be a turbulent period. Companies must find ways to foster a shared, commonly embraced vision of the firm as well as finding pro-active ways to manage the participation of investors in the boardroom.

As one approach, some blended value businesses are experimenting with governance arrangements that limit the influence of later-stage investors, for example offering non-voting shares to those “who are content with a more passive role” (Achleitner et al, 2012). Staying private is another strategy for maintaining more control over who sits on the board, since private companies are not required to offer board seats to investors (Blank, 2013).

However, the most effective way to build a governing board that will maintain mission as a company priority involves choosing the right investors in the first place.

Choosing investors that align with mission

With the trend toward more investor engagement appearing to continue, blended value businesses need to think very carefully before agreeing to partner with any investor. This emerged during the course of our research as one of the keys to protecting the mission through the growth phase. In order to ensure new investors will be supportive of mission aims, it’s vital to choose the right investment partners in the first place.

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Seeking out the right investors

"There hasn't been enough attention paid to the composition of the shareholding of the stock. While you can't forbid investors from taking an interest, you can actively seek out sympathetic investors and market yourselves to them. This has not been talked about enough: Making sure that the ownership of the company is actually aligned with its mission and values." (Ferrari, 2014)

Pierre Ferrari, CEO of Heifer International
and Board Member for Ben & Jerry's

The governing board and senior management team have an important role to play in securing mission-aligned investors to help the business grow without losing a grip on mission. They can "actively seek out sympathetic investors" in the words of Pierre Ferrari, and market the business and mission to them. Before entering into any agreement, leaders seeking investment need to have a sense of how a potential investor will engage with the business, especially in terms of governance. Knowing beforehand how potential investors are likely to act, and, crucially, interact with other governors in the boardroom, will help the leadership of blended value businesses make partnership choices that support mission in the long term.

The trend toward more engagement is leading some investors to be more transparent with regard to their engagement with companies in their portfolio, spelling out their approach to voting and influencing in formal policies. Triodos, a leading, European social investor, sees engagement as a key element of its social and responsible investment strategy and publishes an annual engagement report, recording how it voted and influenced various issues (Triodos, 2014).

Unfortunately, not all investors offer this level of transparency. In such cases, the leadership of the business will need to work with prospective investors to achieve greater disclosure. The Conference Board, a US governance think-tank, convened a taskforce on Corporate/Investor Engagement. Its findings recommend companies determine the following things about potential investors before accepting them as partners (Conference Board, 2014):

- The investor's governance principles and associated voting policies.
- The investor's engagement policies, including their choice to vote or otherwise engage in governance issues.
- Information about whether the investor limits engagement depending on size of investment or the issues involved.
- Information about investor decisions or obligations to outsource voting decisions or follow the recommendations of a third party, such as a proxy advisor.
- Voting positions or decisions of the investor on specific issues.

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When to say no

"Part of locking in mission may be saying no to the wrong kind of investor and instead pursuing strategies like loans or guarantees or finding alternative ways to scale such as simply bootstrapping it." (Noble, 2014)

Abigail Noble, World Economic Foundation

Making term sheets mission-friendly

Another approach to protecting mission at the point of investment involves company leadership working with investors to adapt term sheets (the summary documents outlining the material terms and conditions of any given investment opportunity) to support mission aims (Propper de Callejon, Campbell & Blumberg, 2014). This approach sees impact investors adapting term sheets to "bake in" mission by:

- Requiring that the mission is articulated part of the term sheet, by-laws and Articles of Incorporation;
- Restricting the use of invested funds to impact-generating activities;
- Requiring the establishment of impact reporting systems of various types;
- Requiring that as part of investor's information rights, the company reports a predetermined set of impact performance indicators at a predetermined frequency;
- Requiring that at least one board governor has oversight of impact;
- Linking financial returns to achieved impact inversely: the investor forgives interest payments if the company achieves certain target outcomes;
- Linking financial returns to achieved impact positively: the higher the impact, the higher the return to investors, as in the Pay for Success model;
- Providing founders with a veto power to block an exit if they believe it to be in conflict with mission;
- Using the Benefit Corporation or LLC forms to allow the governing board to give equal consideration to impact preservation when evaluating an exit for investors.

Choosing the right investors

"Choosing investors is a point where you can take action to protect mission. You may think, 'We'll just take the money,' but you shouldn't do it! You need to define the terms on which you'll work. Influential investors can contribute to mission drift when they are too exit-oriented." (Mayer, 2014)

Judith Mayer, CNC Communications & Network Consulting AG

Engaging with investors for the sake of mission

With the trend toward greater investor activism, it's more important than ever for blended value businesses to find effective ways to work with those who invest in

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them. Direct engagement—which involves the company pro-actively determining the priorities and concerns of investors and addressing them directly—is becoming more widespread across the business world (Ernst and Young, 2014). Though still in its early stages, according to the Conference Board, direct engagement "is likely to become a permanent, although less formal, part of governance of US public companies" (Conference Board, 2014).

Direct engagement means businesses begin the conversation with investors, rather than waiting for them to bring up issues of concern, for example through a proxy vote or other means. For blended value businesses, direct engagement offers a way to communicate the firm's mission goals and link those goals to financial performance in a way that keeps investors committed to the larger vision of profit with purpose.

At the same time, a formal strategy of investor engagement can provide a way to help unify boards that may be made up of diverse investors emphasizing diverse goals. By researching investor priorities, understanding their stance on key issues and communicating pro-actively about organizational strategy and activity, the Conference Board study observes, companies may "reduce or even eliminate" the kind of disagreements that can lead to larger problems in the boardroom. This approach may serve to help blended value businesses work more effectively with investors to protect mission.

Due to its importance to board effectiveness, establishing a direct engagement strategy that includes mission is a matter for the board and senior management of blended value businesses. Any such strategy needs to answer these questions:

- ✓ How will the board and senior management stay abreast of information regarding the company's investors, their investment objectives and position on mission-related matters?
- ✓ How will the board and senior management receive feedback from the company's investors about the company's mission performance?
- ✓ How will the business communicate with investors in a way that takes into account both mission delivery and financial performance?

Active communication regarding mission and governance is central to investor engagement. At the same time, direct engagement is an opportunity to consistently reinforce the connection between good governance, financial performance and mission delivery across the entire organization. Investor roadshow presentations and

Good governance: What impact investors can do

1. Choose investments that use the new legal forms with robust governance and reporting requirements, such as the Benefit Corporation.
2. Choose investments that offer transparency about the role of governance with reporting and engagement systems that provide needed information.
3. Employ term sheets that explicitly strengthen impact focus and encourage good governance practice.
4. In director roles, support good governance through your own voting and engagement practices.
5. Build capacity for governance development in investees through grants or loans.
6. Make information about your stance on governance and your engagement policies freely available to investees and the public.

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pitches need to include strong statements concerning mission goals and governance arrangements alongside business information. Websites, social media, marketing, events, statutory reports and, importantly, personal communications are all opportunities to engage investors on mission.

Section V: Performance Monitoring for Mission

Financial monitoring processes are a ubiquitous part of conventional business practice. All for-profit businesses establish more formal systems for monitoring financial performance as they grow. Blended value businesses also need to develop their processes at this point and, in parallel, they must establish similar systems and processes for monitoring mission performance.

Common in the non-profit sector, mission monitoring is still a relatively new undertaking for the governing bodies of for-profit businesses. Despite advances in the field, such as the development of systems including IRIS and SASB, directors' efforts to monitor mission remain hampered by a lack of standard metrics, equivalent to those available in finance, that would allow them to report on mission performance with the same certainty they report on financials (Impact Measurement Working Group, 2014).

Delivering impact performance isn't only a question of having reliable metrics, however. The socially beneficial business movement has placed great emphasis on the metrics in recent years, and rightly so. Yet it's important to remember that metrics alone won't deliver mission or prevent mission drift. To have any power, raw metric information must be incorporated into the highest oversight and decision-making processes of the organization. The governing board must receive it, understand it, debate its significance and actively use it to deliver oversight, provide accountability and inform strategic decisions.

Mission monitoring is the means by which organizations make the connection between impact metrics and leadership and direction. It is emerging as a fundamental governance duty for the boards of mission-driven businesses. Robust mission performance monitoring systems have been shown to help impact funds deliver on mission goals (Clark, Emerson & Thornley 2014). In non-profit governance, mission monitoring is a central activity for the governing board and senior leadership of the organization (Carver, 1990; Lumley, 2013). Innovative social enterprises are using mission monitoring to effectively prevent both mission drift and mission abandonment (Alnoor, Battilana & Mair).

Effective mission monitoring requires establishing organizational and governance systems and processes that track mission-related activity and its outcomes. Establishing these systems or, more precisely, requiring that they be established, is the responsibility of the governing board. To succeed, the board and top leadership need to:

- Clearly define what mission-related information they will measure;
- Establish quantifiable, verifiable mission performance goals;
- Create board-level policies on mission monitoring across the organization;
- Oversee the formation of monitoring systems including the selection of metrics, other measurement methods and key mission performance indicators;

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- Oversee the development of systems for collecting and reporting mission performance information;
- Formally compare actual performance results to the goals or standards set out in their policies.

There is no one-size-fits-all model for mission monitoring. Research indicates that different kinds of blended value businesses need to monitor different things in different ways (Alnoor, Battilana & Mair, 2014). Thus it is no surprise that the monitoring systems used by managers and boards vary according to business size, type and location, legal form and governance structure, and the nature of the social or environmental mission aims.

Despite this complexity, effective mission monitoring systems do have shared characteristics (Epstein & Yuthas, 2014):

1. They originate at the highest strategic level, with the governing board and top management.
2. They align with business and organizational strategy.
3. They are clear about desired performance results.
4. They identify performance indicators that can be meaningfully measured or evaluated.
5. They are supported by organizational systems and processes that track performance and produce verifiable information.
6. These are costed and backed with adequate organizational resources.

Merely gathering data isn't enough. Directors must have accurate mission performance information in front of them when they are making decisions. The organization needs an internal reporting regime that feeds mission-related performance information back into the boardroom where it can inform debate. This involves assigning specific accountability for receiving and deliberating on that information, perhaps establishing a board-level committee that reports to the whole board. And it means preparing and presenting information in a form that can be easily understood and used by directors during the course of board deliberations. [6]

Again, there's no standard form for such systems, but those setting them up must answer such fundamental questions as:

- *Who in the organization will report?*
- *To whom will they report?*
- *What form will reports take?*
- *What will the reporting cycle be?*

The mission-related performance data collected through monitoring has another important function: It provides the raw material for integrated reporting (see next section). In this way, monitoring systems are doubly valuable, supplying the

[6] For more in-depth information about metrics, measurement and establishing mission monitoring regimes, see Epstein, M., Yuthas, K., (2014) *Measuring and Improving Social Impacts: a guide for nonprofits, companies and Impact investors*, Jossey-Bass.

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information needed for internal decision-making and leadership and at the same time providing the basis for effective communication with shareholders, stakeholders and the public.

Measuring for mission

"We need to distinguish how we measure social impact and how we report it. Reporting is important, but I firmly believe that organizations must get the measurements right for their own purposes, for internal reporting and decision-making, before they worry about reporting." (Epstein, 2014)

Mark Epstein, author of *Measuring and Improving Social Impacts*

Section VI: Reporting for Mission

Reporting is another activity that can help reinforce mission in growing organizations. By taking charge of decisions around reporting, the governing board can turn an obligatory duty into an opportunity to preserve and protect mission.

This is truer now than ever, due to changing attitudes about reporting. Expectations are shifting to keep up with increased global awareness of the material importance of extra-financial elements of firm performance including ESG factors. The Global Reporting Initiative (GRI) has grown up to meet this demand for more transparency. Robert Eccles' and Michael Krzus' book, *One Report*, and others on this topic, have helped advance the practice of integrated reporting (Eccles & Krzus, 2010). Meanwhile, the reporting of extra-financial information is becoming more significant as investors increasingly rely on company reports to guide investment decisions (Ernst and Young, 2014).

For mission-driven businesses, the move toward integrated reporting has several benefits. Integrated reporting provides a way for blended value companies to turn a natural commitment to mission into a business advantage. It offers a framework for demonstrating the connection between what the business delivers in commercial terms and what it provides in terms of social and environmental benefit. When done well, it can be a powerful tool for building trust and enhancing reputation while demonstrating both mission and financial competence (IIRC, 2014).

Because of this, the choice of what to report and how to report it is an increasingly important strategic decision for businesses. As such, it should not be left in the hands of PR or marketing departments, as sometimes happens (Epstein, 2014). Rather, the decision of how to report should be made by the governing board and senior management team (Smith, 2015).

The leaders of blended value businesses need to choose reporting methods that demonstrate accountability and provide investors and other stakeholders with reliable information about both business and mission performance. External, third party verification is becoming more common, as it enhances confidence in the report's quality. Decisions about how to use reported information across all organizational communications including websites, social media, press releases, internal training and private communications are also matters for strategic oversight.

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With the GRI's G4 Guidelines[7] and the IIRC's Integrated Reporting Framework[8] now available, companies now have more reporting choices than ever. Choosing reporting methods strategically, devoting adequate resources to reporting, and following through on disclosure across financial and non-financial information, will benefit both mission and growth in blended value organizations.

Section VII: Formalizing Board and Executive Accountability

The rise of integrated reporting and increased investor focus on extra-financial factors are symptomatic of a new global attitude toward business also reflected by the impact investing movement. As more companies adopt ESG standards and seek to deliver some kind of benefit along with profit, factors that were once at best marginal to strategic direction are becoming central to it. As a result, companies are now making governors and executives formally accountable for areas of extra-financial performance.

One important example of this trend is provided by research from Ceres, an advocacy organization for sustainability leadership, into the evolution of sustainability practice in companies (Ceres, 2014; Ceres & Ramani, 2015). In an effort to understand what makes some companies more effective when it comes to delivering sustainability performance, Ceres has increasingly focused its studies on how boards and directors provide oversight for sustainability. They found companies responding to the increasing pressure to deliver on sustainability by making both executives and governing boards formally accountable for sustainability performance.

It should be acknowledged that Ceres' research focuses on large companies with highly developed governance systems. The findings, however, indicate a direction of travel for governance practice that has relevance for smaller and growing businesses with mission aims. Measures implemented include:

A board-level oversight committee with a written charter: Almost a third of Ceres' surveyed organizations in Tier 1 and 2 had formalized board accountability for sustainability by establishing "a written board committee charter that…formalizes expectations and ensures continuity of commitment for sustainability regardless of board or management turnover." Additionally, 27% of companies in Tier 1 had formal board oversight in the form of committee charters for both social and environmental sustainability issues.

[7] For more information about the GRI see their website: https://www.globalreporting.org/resourcelibrary/GRI-Assurance.pdf
[8] For more, see the IIRC website: http://www.theiirc.org

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Skills in the boardroom

"In the US we've seen that many companies do have sustainability committees with written charters. Yet to be effective they also need to have the right people on those committees. The board skills matrix—the list of skills a board needs—must have sustainability oversight skills embedded in it. In addition to hiring business expertise, companies need to make parallel efforts to identify and hire board members with sustainability skills." (Ramani, 2015)

Veena Ramani, Senior Director, Corporate Program, Ceres

A management committee for sustainability: A quarter of companies in Ceres' survey create a management committee "chaired by the CEO or other C-suite executive and comprising senior level executives from across the enterprise." Such a committee provides an effective mechanism for integrating sustainability into strategy, planning and operations.

Tying sustainability performance to executive compensation: Almost a quarter of companies Ceres' survey link executive compensation with some sustainability metrics, though with varying degrees of transparency. 7% of companies in Tiers 1 and 2 go farther, making explicit links between compensation practices and public disclosed sustainability targets. 3% in Tier 1 link compensation to sustainability performance targets that go beyond goals driven by required compliance with laws and regulations.

Including sustainability in all policies and risk management systems: Companies are increasingly establishing formal sustainability policies and integrating sustainability criteria into risk management systems, the report found. 19% of Tier 1 and 2 companies, adopted formal policies related to sector-specific social and environmental issues and had systems in place for implementing those policies.

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Recommendations

As this paper has tried to demonstrate, businesses in several sectors, coming at this issue from a range of different perspectives, are finding that governance practice can provide a framework for building mission into the DNA of organizations. However, this short paper only scratches the surface of what is already a developing field.

To take this inquiry further, we recommend more research to capture current learning across sectors and to identify mission-supportive governance practice as it evolves. Sharing this information with budding social entrepreneurs, MBA students and investors, thereby increasing their understanding of the potential of governance to provide solutions to mission challenges, could help develop more sophisticated attitude toward the role of governance across the sector.

Additionally, more research into some of the areas flagged in this paper could yield important insights. Mission monitoring is one of them. More research is needed into how organizations develop the kind of monitoring systems that make practical use of metrics and enable governing boards and managers to evaluate mission alongside financial performance—and so to deliver oversight and accountability in both areas.

Investor engagement is another area where more research could be beneficial. As the sector continues to expand into the mainstream, new kinds of investors will be joining the boards of growing blended value businesses and exerting their influence. More work on how the leaders of these businesses—governing boards and top managers—can create pro-active strategies to identify investors who will align with mission and negotiate favorable terms for mission preservation, would be welcome. More research into how investors behave in governance roles, and the impact that has on mission preservation, could yield clues as to why so many businesses find mission pushed to the margins as they grow. There is also room for developing practical resources to help businesses establish effective investor engagement and communication strategies.

Board composition and recruitment in mission driven businesses is another area ripe for study. It stands to reason that blended value businesses need more than conventional business expertise on their governing boards and in their senior management teams. They need "multi-lingual" individuals who support the mission and understand the relationship between the business and the benefit it delivers. Advisory committees and advisory boards also require the right people if they are to deliver value. And finding an experienced, mission-wise chair can be key both to the effective functioning of the board and to the preservation of mission.

As the sector matures, the pool of professionals with "multi-lingual" skills is growing, but finding the right people remains challenging for businesses in the hectic scaling stage. Wider use of skills matrices—and matrices developed especially for mission-driven businesses—could help. A specialist referral service, online skills bank or recruiting agency could be established to put growing businesses in touch with appropriate candidates. Gathering and sharing the experiences of board members, and especially of chairs of blended value businesses, could speed sector learning and

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support the professional development of a new generation of blended value business leaders.

Conclusion

Mission-supportive legal forms—including the evolving field of hybrid and tandem forms as well as other innovative adaptations to traditional forms—are an essential starting point for creating new kinds of blended value businesses. Equally, broad infrastructural and structural changes, such as those recommended by the Impact G8 Taskforce, will be necessary if we are to establish a climate where businesses with mission aims can thrive and grow to scale. Much valuable work has been done in both these areas and research into solutions continues.

However, legal and infrastructural solutions can only provide part of the answer to the question of how to preserve mission in the growth stage. We suggest that another part of the solution may lie deep within the strategic heart of organizations, within the systems and processes through which governing boards provide oversight and accountability to the businesses they lead. While the growth stage brings many challenges, it also offers opportunities for building mission into the very fabric of governance systems, and thereby helping embed it in the DNA of the business even as it scales up.

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Author Bios

Jed Emerson
Originator of the concept of Blended Value, Jed Emerson is an internationally recognized thought leader in sustainability and sustainable finance, impact investing, social entrepreneurship and strategic philanthropy. Emerson has played founder roles with some of the world's leading venture philanthropy, community venture capital and social enterprises. Among other posts he is Chief Impact Strategist with ImpactAssets and Senior Fellow with the Center for Social Investment, Heidelberg University (Germany) and Clinical Professor with NYU-Abu Dhabi. He's been selected twice as one of North America's Top 100 Thought Leaders in Trustworthy Business Behavior and by the NonProfit Times as one of the 50 Most Influential People in the Sector.

Marta Maretich
Marta Maretich is a writer, editor and researcher in the fields of corporate and nonprofit governance, social investing, venture philanthropy and impact investing. She is the author and/or editor of many books on governance practice in both nonprofit and hybrid organizations and the co-author of the EVPA report, *Social Enterprise: From Definitions to Developments in Practice*. She spent three years as editor and chief writer for Maximpact.com, an impact investing site. Previously, Marta helped develop the website for the UK Government's Governance Hub initiative and served as a member of the advisory community for developing the Governance Code of Practice. She is a consultant for Bates Wells Braithwaite's OnBoard governance development program.

Alex Nicholls
Professor Alex Nicholls MBA is the first tenured professor in social entrepreneurship appointed at the University of Oxford and was the first staff member of the Skoll Centre for Social Entrepreneurship in 2004. His research interests range across several key areas within social entrepreneurship and social innovation, including: the nexus of relationships between accounting, accountability, and governance; public and social policy contexts; social investment; and Fair Trade.

Contributor Bios

Tessé Akpeki
Tessé Akpeki is a consultant in leadership, management, governance and personal development and heads the governance development program for Bates Wells Braithwaite, a UK law firm specializing in charity law. For 13 years she played a role in shaping the governance program at the National Council for Voluntary Organisations (NCVO). A qualified lawyer, coach, facilitator, chartered secretary and mediator, she has worked with over 1,000 voluntary and community organizations both nationally and internationally. She consults widely in the sector, contributes her expertise to government policy formation and is the author of many books on governance and the development of governing boards.

Marc Epstein

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Marc Epstein is considered one of the global leaders in the areas of innovation, sustainability, governance, performance measurement, and accountability in both corporations and not-for-profit organizations. He has been a visiting professor and Hansjoerg Wyss visiting scholar at Harvard Business School and a distinguished research professor at Rice University's Jones Graduate School of Management. He has been a senior consultant to leading corporations and governments for over twenty-five years, specializing in strategy implementation, innovation, governance, accountability, and performance metrics. Epstein has also served as a professor at Stanford Business School and INSEAD. He is the author of several books and many articles on corporate sustainability, improving social impacts, corporate governance, and innovation.

Pierre Ferrari
Pierre Ferrari is the President and CEO of Heifer Project International as well as a partner in Tula Communications and the President of Hot Fudge, a venture capital fund. He has 35 years of business experience ranging from large consumer organizations, such as Coca-Cola and Ben & Jerry's, to small start-ups. He serves as chairman of the board for Ben & Jerry's where he has been a board member since 1997. He also serves on the boards of a number of other companies including The Nassau Group, Arrowstream, Guayaki Sustainable Rainforest Products and SEAF. He is involved in a wide variety of social issues including international relief and development (he was special assistant to the President of CARE), support for the arts, and conscientious commerce. He is a director of Small Enterprise Assistance Funds (a private, non-profit equity fund deploying $200 million), chairman of the Advisory Council for The Emory Ethics Center and chairman of Businesses and Environmentalist Allied for Recycling.

R. Todd Johnson
R. Todd Johnson is a partner at Jones Day, working with renewable energy companies, companies seeking to have an impact on sustainable growth and energy efficiency, and companies using the internet and "for-benefit" models in innovative ways. He founded Jones Day's Northern California presence in 2000 by opening its Silicon Valley office and has served as regular outside counsel for public companies and start-ups, and venture capital and private equity funds. Today, Todd focuses on renewable energy companies, energy efficiency companies, clients focused on sustainability, internet companies (particularly in the cause marketing and social media space) and "for-benefit" corporations.

Judith Mayer
Judith Mayer's research on governance in social enterprises has appeared in *Organizational Studies* and *Voluntas*, and she is a contributor to Schwab Foundation's *Governance of Social Enterprises*. She was a research assistant at Technische Universität München, with a dissertation focusing on governance and financing social enterprises. She formed part of an expert group on social business for the European Union and was personal assistant to Professor Dr. Ann-Kristin Achleitner. Judith also worked for the German Government as an advisor on Corporate Governance. She currently works as a consultant in corporate and finance communications with Communications and Network Consulting (CNC).

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Abigail Noble
Abigail Noble is Head of Impact Investing Initiatives for the World Economic Forum. She is focused on how global economic systems, financial markets, and innovative policy mechanisms can create more inclusive societies. From 2010 until 2013, she served as the Head of Latin America and Africa for the Schwab Foundation for Social Entrepreneurship. She received her B.A. in Economics from Tufts University, her Master's in International Development (MPA/ID) from the Harvard Kennedy School of Government, was a Global Leadership Fellow with the World Economic Forum and a Fulbright Scholar in Uruguay, where she studied democracy and economic development.

Veena Ramani
Veena Ramani is a Senior Director in Ceres' Corporate Programs. Since 2006, she has managed the relationships with a portfolio of Ceres companies and currently leads the program's work with the financial services sector. She works with companies on a variety of sustainability strategy, performance and disclosure issues including policy and program development, sustainability reporting, stakeholder engagement processes etc. Veena also leads Ceres' work on governance for sustainability and disclosure. Prior to Ceres, Veena worked as a Management Consultant with CDM, an environmental consulting firm, and spent three years with Integrative Strategies Forum, a Washington DC based NGO.

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