



Your purpose at  
the heart of your  
business **Purposely.**

# About the Purposely articles

We refer to the four Purposely versions of amended articles as Models 1 to 4. This guide explains the differences between them and how they differ from the default model articles. This does not constitute legal advice.

Purposely has adapted the standard articles of association that are used by the vast majority of UK companies – the company limited by shares – and created four amended versions to suit different types of purposeful businesses. These amendments are entirely consistent with the Companies Act 2006, under which any company may choose to adopt its own tailor-made articles. The default articles are available at <https://www.gov.uk/guidance/model-articles-of-association-for-limited-companies>. These are often referred to as the “model articles”.

There are other forms of company that founders may wish to consider when they are incorporating their business, such as the Community Interest Company or the Company Limited by Guarantee. Purposely does not try to help founders to decide which company form is right for them. For information on these other options, see <http://socialinnovation.trust.org>, <https://www.gov.uk/set-up-business> and <https://www.gov.uk/set-up-a-social-enterprise>.

This is a beta version of Purposely, which gives users everything they need to select and finalise a set of amended articles. We hope that a future iteration of Purposely will provide fully dynamic versions of the articles, which will be more user-friendly.

We welcome feedback on this document, so it can be improved over time.

	Default articles	Model 1	Model 2	Model 3	Model 4
<b>Purpose (as described in the objects clause)</b>	<p>No objects clause.</p> <p>The default purpose is <i>to promote the success of the company for the benefit of its members as a whole.</i></p> <p>This means its purpose is to benefit its shareholders.</p>	<p>The objects clause gives the company an opportunity to set out a purpose. The company is still expected to be run for the benefit of its shareholders.</p> <p>The idea is that by advancing its stated purpose effectively, shareholders will benefit as a result.</p>	<p>The objects clause gives the company an opportunity to set out a purpose.</p> <p>The purpose is not only to promote the success of the company for the benefit of its shareholders, but also, through its business and operations, to have an overall material positive impact on society and environment.</p>	<p>In Models 3 and 4, the objects clause requires the company to set out a primary social and/or environmental purpose, which takes precedence over creating value for shareholders.</p> <p>Shareholder value is a secondary and subsidiary object. The effect is to subordinate shareholder value to the primary social purpose.</p>	
<b>Relative priority of shareholders' interests versus other stakeholders (as described in the objects clause).</b>	<p>In pursuing its purpose, the directors must have regard to the interests of employees, suppliers, customers, and the company's impact on the community and environment.</p>	<p>The Model 1 drafting does not change the relative priority of interests. The interests of shareholders are not displaced or devalued.</p> <p>However, it is acknowledged that benefit to shareholders follows from pursuing the company's stated purpose.</p>	<p>The Model 2 drafting changes the relative priority of interests. The interests of shareholders do not come before the interests of other stakeholders.</p> <p>The shareholders mandate the directors to weigh up different stakeholder interests when making decisions.</p> <p>The duty to have regard to the interests of employees, suppliers, customers, and impact on the community and the environment still remains.</p>	<p>In Models 3 and 4, the social purpose is elevated above the interests of shareholders. The duty to have regard to the interests of employees, suppliers, customers, the community and the environment still remains.</p> <p>This model also has optional language stating that the company also aims to have a material positive impact on society and the environment, taken as a whole, as part of the company's primary social purpose.</p>	

	Default articles	Model 1	Model 2	Model 3	Model 4
<b>Directors' duties clause</b>	The directors of a company are obliged to act in a way which is expected to advance its purpose, which is to benefit its shareholders. It must also have regard to the interests of other stakeholders, as noted above. "Have regard to" means considering these other interests, but there is no requirement to act in these interests.	In all four Models, directors are obliged to have regard to the different stakeholder considerations set out in legislation when making decisions about the operations of the company.			
		Model 1 also provides an option to qualify the duties of directors so that the directors are obliged to integrate different stakeholder considerations into its operations, with a view to enabling the company to have an overall positive impact in society.	Model 2 also states that a director shall not be required to regard the benefit of any particular stakeholder consideration as more important than any other.	Model 3 also states that a director must not seek to create value for shareholders in any way which he or she considers, in good faith, would be likely to undermine the primary object of the company.  This applies in particular to any decision to distribute dividends or transfer assets during the life of the company or on insolvency.	Model 4 also states that a director must not seek to create value for shareholders in any way which he or she considers, in good faith, would be likely to undermine the primary object of the company.
<b>Statement of Responsible Business Principles</b>	Does not apply	All four Models include a reference to a statement of responsible business principles, and give these principles force by integrating them into the constitution of the company. The company is able to define these principles itself, and attach them as an appendix to the articles. Purposely provides examples of some principles for consideration. The result of referring to the principles in the articles is a duty on directors to seek to ensure that the company carries out its business in accordance with a statement of responsible business principles. This provides clarity and assurance to directors that the responsible business principles are genuinely agreed and binding upon the directors, and are not merely aspirational or in conflict with directors' duties.			

	Default articles	Model 1	Model 2	Model 3	Model 4
Procedure for declaring dividends and non-cash distributions	Describes these procedures in detail	Same as the default articles	Same as the default articles	When considering whether or not to recommend a dividend or non-cash distribution to shareholders, the directors are obliged to take into account the fact that returns to shareholders are secondary to the company's primary social object.	
				<p>The directors may also consider other factors, e.g. any need to make distributions, invest in its products and services or retain earnings for future development.</p> <p>This provision does not expressly limit the returns to shareholders but means that they must be awarded as part of a strategy of advancing the company's primary object. Such a decision and its basis must be minuted.</p>	The directors are also obliged to develop a dividend policy that is intended to ensure that, over time, a majority of distributable profits are reinvested in the company or applied towards achieving the primary social object.

	Default articles	Model 1	Model 2	Model 3	Model 4
<b>Social enterprise clause</b>	Does not apply	Does not apply	Does not apply	Does not apply	<p>This clause makes it clear that the company is to operate as a social enterprise. A social enterprise is defined by Social Enterprise UK as a business that:</p> <ul style="list-style-type: none"> <li>• Trades primarily for a social purpose set out in its articles</li> <li>• Reinvests or applies the majority of its profits in or towards achieving its purpose</li> <li>• Generates the majority of its income through trade</li> <li>• Is independent of the state or third party commercial interests</li> <li>• Is accountable and transparent</li> </ul>
<b>Records and accounts</b>	The default articles make no reference to the publication of the company's purpose or responsible business principles.	<p>All four Models place a requirement on the company to publish its purpose and its statement of responsible business principles in its annual report and prominently on its website.</p> <p>In its annual report, the company must also explain any steps taken to ensure adherence with the company's responsible business principles. This might include, for example, embedding the principles in the employment contracts of staff or in contracts with suppliers.</p> <p>These requirements are intended to ensure a degree of transparency about the company's purpose and its responsible business principles.</p>			

	Default articles	Model 1	Model 2	Model 3	Model 4
Impact report	The default articles make no reference to the publication of an impact report.	Model 1 provides an option for the company to include drafting that requires it to send to the members an annual impact report.	Models 2-4 require the company to send to the members an annual impact report.		
		<p>The impact report should help the members to have a rounded understanding of how the company has sought, through its business and operations, to advance its objects and have a material positive impact on society and the environment.</p> <p>There is no prescribed format for the impact report but it should be balanced, comprehensive and proportionate to the size and complexity of the business. The company may choose to publish the impact report as part of its annual report or strategic report, if it is required to produce one.</p> <p>There are many different forms of impact reporting being adopted by companies. A selection of approaches are listed in the appendix to this document.</p>			
Winding up	Does not apply	Does not apply	Does not apply	<p>If the company is wound up and all its liabilities have been met, the directors are obliged to consider that the company has a primary social object and to recommend to the members how any residual assets should be distributed. It might typically be expected that at least half of any surplus assets will be given to a not-for-profit institution having objects similar to the primary social object of the company, though the directors may have reasons in certain situations to recommend otherwise.</p>	<p>If the company is wound up and all its liabilities have been met, then a majority of any surplus assets must not be paid to or distributed among the shareholders.</p> <p>Instead they must be given to a not-for-profit institution or institutions with objects similar to the primary social object of the company. This is a way of ensuring that the company prioritises its primary social object, even on insolvency.</p>

## Appendix: A selection of impact reporting approaches

### The B Impact Assessment

Over 40,000 businesses have used the [B Impact Assessment](#), which is a free and confidential online tool to enable businesses to measure their social and environmental impact. It allows businesses to assess their impact, compare how they are doing against other companies and to improve. It is a relatively simple and easy to use methodology for small and medium sized businesses.

### Future Fit Business Benchmark

The [Future Fit Business Benchmark](#) is a free tool to help companies and investors change how they create long-term value for themselves and society as a whole. It is a relatively new tool which identifies the ultimate environmental and social performance thresholds that all companies must ultimately strive to reach and helps companies to find a way to assess progress toward them.

### Global Reporting Initiative

The [Global Reporting Initiative](#) or 'GRI' is an international network which has developed a set of sustainability reporting standards which are developed in consultation with multiple different stakeholders and which are rooted in the public interest. A number of large businesses and governments use the standards to understand and communicate their impact on important sustainability issues such as climate change, human rights, governance and social well-being.

### Social Return on Investment

Social Value UK has written, in collaboration with the UK Government, [A Guide to Social Return on Investment](#), which is designed to provide a methodological framework for anyone interested in measuring, managing and accounting for social value or social impact, including companies and their directors. It is supplemented by a specific guide for social entrepreneurs called [Maximise Your Impact](#).

### Other Impact Reporting Tools

Other prominent sustainability reporting guidance, especially for multinationals, include:

- The Organisation for Economic Co-operation and Development's [Guidelines for Multinational Enterprises](#)
- The UN Global Compact's [Communication on Progress](#)
- The International Organization for Standardization's [ISO 26000: International Standard for Social Responsibility](#)

There are a range of other different approaches to impact reporting which are possible and which are being used and developed in the marketplace, as well as an increasing number of advisory services and consulting practices which are specialising in impact measurement and reporting.