PURPOSE® RSF SOCIAL FINANCE

Steward-ownership and Alternative Financing in the US

Learning Journey Report 2019

Purpose & RSF Social Finance

Opening note

This report reflects a yearlong learning journey Purpose and RSF Social Finance undertook to explore steward-ownership and alternative financing in the US. It contains the learnings from more than sixty conversations with entrepreneurs, investors, founders, owners, non- profits, and business leaders. It is the first product of their on-going partnership to make steward-ownership accessible to entrepreneurs and investors through research, field building, and promotion.

Thank you to everyone who was interviewed as part of this research and for candidly sharing your stories and perspectives.

Content

About the authors

Purpose

Founded in 2016, Purpose believes that redefining ownership is central to building an equitable, regenerative economy. To date, our focus has been on making steward-ownership and alternative financing accessible to entrepreneurs, business leaders, investors, and legal professionals in Europe, the United States, and Latin America. We promote and research the impact of steward-ownership structures on the success, longevity, and social impact of businesses. Our mission is to build the field of steward-ownership and create the necessary legal, financial, and educational infrastructure to make steward-ownership easier and more accessible.

Purpose has proven that there is a need for alternative ownership structures in the market. We've successfully transitioned 30 companies to steward-ownership in Europe and the US—with dozens more currently in transition—developed key legal infrastructure, activated $75 million in alternative venture and growth capital for steward-owned companies, and brought steward-ownership to key networks at over 150 conferences and events. We've also established two investment funds: (1) Purpose Ventures for Series-A startups, which provides flexible, capped, non-controlling growth capital; and (2) Purpose Evergreen Capital, an alternative private equity investment vehicle. Both funds are structured as steward-owned entities, so no individual in the Purpose organization financially profits from our successes. The investment vehicles are designed to be low-yielding in order to make capital and services accessible for mission-driven companies.

RSF Social Finance

RSF Social Finance is a financial services organization dedicated to revolutionizing how people relate to money. RSF provides opportunities for people to align their investing and giving with their values, and connects social entrepreneurs with loan capital. We believe that people are served best by long-term financial relationships that are direct, transparent, and personal. These relationships build the foundation for trust and collaboration to emerge, leading to long-term social, economic, and ecological benefits. Since 1984, RSF has made over $600 million in loans, grants, and investments supporting social enterprises in the areas of food and agriculture, education and the arts, and climate and environment.

Foreword

Jasper van Brakel, RSF Social Finance

As crises pile up around us, from climate change to income inequality, it's clearer than ever that the way most businesses operate is a large part of the problem. The world urgently needs to move from an extractive to a regenerative economy, and to do that we need to fundamentally redefine business ownership and governance structures.

We can't build the future on the scaffolding of the past—incremental tweaks will not produce the change we need, and paradigms won't shift if the incentives don't. That is why RSF Social Finance is supporting and collaborating with Purpose to explore, refine, and promote alternative business structures designed to build value for all stakeholders. We need structures that position profit not as an end but as an engine for creating social, cultural, and ecological goods. In short, we need to replace shareholder primacy with mission primacy.

The initial response to this analysis is often, "Who wants to invest in a business like that? Who wants to put in the sweat equity to build one?" The answer might surprise you: a lot of people. In conversations with many entrepreneurs and investors, I've found that people respond passionately to the idea of redefining ownership and governance, so much so that a grassroots global movement is emerging to develop and demonstrate mission-first models rooted in stakeholder governance and build a finance and legal ecosystem that supports them.

A confluence of factors is fueling the rise of this movement. One is millennials' widely noted preference for companies with a purpose beyond profit taking. Others are more subtle, but probably more propulsive: The first wave of social entrepreneurs is approaching retirement age, and looking for succession plans that don't destroy what they've built. At the same time, those pioneers and the succeeding waves of founders and CEOs are grappling with how to provide liquidity for themselves and their investors and protect their companies' missions while enabling continued growth and investment.

Even CEOs of the largest companies in the United States feel the sands shifting, as illustrated by the much-discussed Business Roundtable statement proclaiming that companies should be run to benefit all stakeholders[1]. In other words: Milton Friedman was wrong.

[1] Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans? (2019, August 19). Retrieved from https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

As Otto Scharmer, chair of the MIT IDEAS program for sustainability and cross-sector innovation and founder of the Presencing Institute, has said: "At the heart of our current predicament is a disconnect between the real-world challenges—the widening ecological, social, and spiritual divides—and the outdated economic models we use to respond to them."[2]

If that is true, the entire incentive system of the business world needs revision or we will continue to have the same outcomes. This report is the first draft of a solution—and the journey we are taking with Purpose to understand how to make steward ownership and other mission-first models appealing to a wide swath of businesses is the first step in building the foundations of a new economy.

We invite you to join us.

[2] Transforming Capitalism: Seven Acupuncture Points. (2017, April 1). Retrieved from https://www.huffpost.com/entry/transforming-capitalism-seven-acupuncture-points_b_58e006cce4b03c2b30f6a6fa

Introduction

Camille Canon, Purpose US

We started Purpose three years ago with two core beliefs: first, that the economy and business could be forces of good in the world; and second, that corporate ownership is the primary lever to unlocking this potential. Despite the countless examples of profit-maximizing corporations and extractive capital holders, we see a growing community of purpose-oriented entrepreneurs, businesses, and investors emerging who want to be part of the solution. They're using for-profit business to tackle some of society's biggest problems in an effort to create a more collaborative, regenerative economy. Our mission is to help this growing global community of entrepreneurs and leaders find mission-aligned steward-ownership solutions that protect their purpose and long-term independence.

We believe redefining corporate ownership is central to building an economy and society that work for both people and the planet. The dominant shareholder-value-primacy paradigm, in which profit-maximization is the ultimate goal and corporations are void of responsibility to stakeholders, will never foster an equitable economy that respects the needs of the planet, nor will it ever enable us to create a society based on cooperation and interconnectedness.

We need new ways of understanding companies as collaborative organisms. We also need tools to ensure they stay independent, so that they are empowered to value long-term strategy over short-term profits, social and environmental impact over growth, and the needs of all their stakeholders.

By questioning our assumptions about how ownership works, who holds power in organizations, and how businesses are financed, we're creating new models for collaboration within organizations, across stakeholder groups, and between businesses. Steward-ownership has proven a powerful tool for protecting the purpose, mission, and long-term independence of a company. These structures keep a company's[3] underlying purpose deeply embedded in its operations. They enable generations of stewards to carry on the mission and values of an organization and protect its impact. Steward-owned companies have proven to be more successful over the long-term, and act in the interests of a broad range of stakeholders, including employees, consumers, and society.

Since starting our work in the US in 2017, we have maintained the belief that demand for alternative ownership and financing models exists here. At conferences and gatherings, we've listened to entrepreneurs and investors explain the challenges they face in implementing alternative ownership and investing on alternative terms.

[3] You can find more information about steward-ownership at the back of this book and in our cornerstone publication "Steward-ownership: Rethinking Ownership in the 21st Century" online at purpose.ag/book.

We've learned that the legal forms for steward-ownership are more complicated and expensive to implement in the US than in Europe. We've determined that we face new cultural challenges in the US that don't exist in Europe, where these forms—e.g., foundation-ownership and non-voting equity—are more widely known and employed. We've also recognized the structural challenges we face to rethink ownership and our relationship to capital and money in the US, a country that lacks the social and economic securities of the Northern European countries where these forms have historically been most prevalent.

Yet despite these challenges, there is a growing sense in the US that business needs to change and that we need new solutions—like steward-ownership—to address the mounting social and environmental crises we face. Signals of this change have come from the most established and powerful corners of our economy this year, from Larry Fink's letter on "Profit and Purpose" to Business Roundtable's proclaimed departure from shareholder primacy. Despite "purpose statements" from the global elite and the many incarnations of the "conscious capitalism" movement that have emerged in the last decade, the general discourse on what the next chapter of capitalism will look like and what legal and financial structures are needed to realize it is still nascent.

To build this discourse and develop the vocabulary for a new paradigm of ownership and financing in the US, we wanted to better understand the needs and perspectives of social entrepreneurs, business leaders, investors, and foundations. How do they view the role of alternative ownership and financing? How does the type of financing companies take on impact the arc of the business? How do these different groups view a company's purpose and long-term impact preservation? What challenges do they face in implementing or investing in alternative structures, and how can we help them navigate this new landscape?

To answer these questions, we spent the past twelve months on a learning journey together with RSF Social Finance interviewing young entrepreneurs, post-exit entrepreneurs, retiring founders, family-owned businesses, investors, corporate leadership, other non-profits, and foundations. In total, we spoke with more than sixty people from these different stakeholder groups in-person and via video conference calls. The findings from those conversations along with our supplemental research are presented in this report.

Thank you to the dozens of people who generously gave us their time to explore these questions and help conceive of solutions. You were incredibly forthcoming and transparent about your experiences and opinions. Out of respect for your privacy, we have committed to keep your identities and our conversations confidential.

This report represents a synthesis of these conversations, along with our key learnings and recommendations for the future. The writing of this report is intentionally neutral. As such, it belies the emotional nature of many of our conversations. We heard from many founders, entrepreneurs, and business leaders whose companies, employees, and communities have been deeply impacted by the type of ownership and capital/financing they chose. Their stories illustrate how the conventional models of ownership and financing can conflict with the goal of creating long-lasting, independent organizations that balance the needs of capital providers, labor, other stakeholders, and the environment. Some of the entrepreneurs we spoke with have been fortunate and experienced enough to find solutions and partners that have enabled them to stay this track (for now). Unsurprisingly, an entrepreneur's or team's gender and race play an enormous role in their capacity to bootstrap and/or find capital partners willing to support this ambition.

We structured this report into four groups of learnings: (1) Industry-wide, (2) Challenges of current models, (3) Alternative financing, and (4) Stewardship—a broader movement. In each section, we present the core learnings from our conversations and strive to provide a sense of the current state of alternative ownership and financing in the US. There are more than a dozen key learnings explored in this report. Of those, we would like to highlight the following three:

1) Consciousness for the role of ownership in the economy is growing: There is a growing awareness that corporate ownership is a powerful lever for retooling corporate behavior towards employees, stakeholders, and the environment. To move towards a more equitable, regenerative economy, we must examine what drives decision-making in business and develop structures that empower people to move beyond shareholder primacy to act in the broader interests of people and planet.

2) Alternative ownership solutions are needed: Entrepreneurs, retiring founders, and impact investors are looking for alternative ownership solutions that are flexible and can be adapted to the cultural and capital needs of an organization. Founders and owners are looking for flexible solutions that enable them to: (1) keep control over their businesses directly connected to their missions and operations and maintain their independence; and (2) balance the short- and long-term needs of capital providers, the company's purpose, and stakeholders.

3) Mission-driven businesses need more aligned capital options: Although financing solutions are available for businesses interested in maintaining control and independence, more knowledge, education, and networks are required to socialize these concepts among businesses and investors. Peer-to-peer networks of investors are needed to activate capital for these structures. We also need more analysis and research on the long-term impact of these ownership and investment structures on returns, business success, and impact measurements.

What's clear is that conventional ownership structures and financing models, which are rooted in the model of shareholder primacy and profit-maximization, fall short of the vision of sustainable, renewable social businesses and investors. What's more, these ownership and financing forms often perpetuate extractive corporate and capital behaviors that undermine our efforts to create an economy that serves both people and planet. Although interest in these structures is growing, legal implementation remains costly and difficult, and many entrepreneurs and investors remain unaware that these alternatives exist. At the end of this report, we explore what's needed to help lower the barrier of entry for entrepreneurs and investors to make these forms and capital more readily accessible.

Final note

Demand for steward-ownership is growing. Since we started this learning journey in January 2019, we have been contacted by more than a hundred businesses in the US interested in steward-ownership and alternative financing. We are currently working with more than a dozen startups and mature businesses on their way to steward-ownership. Many of the founders and owners of these businesses represent the pioneers of social enterprise. For them, what they decide to do with their businesses' ownership is about more than money. It's about their legacy, and the impact they can have towards creating a more regenerative economy. We are grateful for the opportunity to support them on their journey, and to share their stories with you in the coming months and years.

Key learnings

Industry-wide

Businesses need alternative solutions

The entrepreneurs and business leaders we spoke to as part of this learning journey—and connected with more broadly through our work—represent the pioneers and next-generation leaders of social enterprise. These entrepreneurs founded their companies to solve big societal problems and bring about change. Whether their goal was to create well-paid, meaningful employment opportunities in their communities; build new systems for food, technology, or healthcare; or connect people to ideas to create a better world, these leaders founded their businesses on the values of purpose, entrepreneurship, and sustainability.

As these companies grow and mature, founders and leaders often struggle with the limitations of conventional ownership and financing models. We heard from startups, mature businesses, founders, CEOs, family members, and teams about the ways these models are misaligned with the needs, aspirations, and purpose of businesses. What we learned is that purpose-led businesses are looking for new ownership and financing solutions to grow sustainably and thrive long-term.

Start ups

In the startup phase, businesses are presented a generic, one-size-fits-all approach to growth capital, designed to produce *unicorn* businesses and *home runs* for investors. These investments typically force businesses on a track to fast growth or failure, and ultimately push the founders towards an exit, either through a sale or an IPO.

This approach to growth capital investment has been adopted by the impact investment community, along with the funding structures and financial expectations that accompany it. Yet these conventional investment forms are often at odds with the ambitions of millenial and Generation Z entrepreneurs and their founding values and missions. These founders are interested in more than just money. In the face of mounting social and environmental crises, they have deliberately chosen enterprise—rather than policy, non-profit, or activism work—as their vehicle for social change. They want to create businesses that are social and sustainable. As a result, they often struggle with conventional, institutional venture capital terms, which can force them to dilute their founding missions to satisfy the needs of investors (e.g., exits, growth, etc.). **Startups are looking for alternative investment and ownership structures that do not force founders to sell their companies or compromise their missions.**

Mature businesses

Founders and owners of mature businesses face a fundamental tension between the need to achieve liquidity for themselves and investors and the desire to maintain their companies' missions and values. Having seen the fates of their peers' businesses after they were sold (willingly or unwillingly) to multinationals and private equity firms, they are skeptical that these new parents can maintain their missions and values in the face of pressure from public markets, shareholders, and limited partners. Many expressed concerns about impact investors' long-term commitment to a company's mission, values, and stakeholder community given their market-rate return expectations and occasional resistance to legally codified company-specific standards and values. As a result, these founders feel forced to choose between liquidity and loyalty to their mission and community. **New solutions are needed for providing liquidity to retiring founders and exiting investors without undermining their companies' visions.**

Family businesses

We also spoke with several family-owned businesses that struggle with questions of generational succession and inter-generational mission protection. Aware of how many family businesses struggle to maintain their independence and culture over the long-term, family leaders are looking for secure legal solutions to ensure the lasting survivability of their companies and legacies. We explore the challenges facing family businesses in more detail later in this report.

> As a mission-driven entrepreneur aspiring to create a regenerative business, it sometimes feels like the current regime conspires to work against you. In no area is this more the case than when going out to raise capital. Venture capitalists have successfully convinced other participants in the investment process to push a model of financing that drives outcomes where shareholder gains are the only objective of the company, and achieved through an 'exit'. That model is not conducive to long-term thinking, nor is it conducive to taking into account people and the planet—it's only concerned with profit. Etsy and Warby Parker are high-profile examples of B Corp certified businesses unable to maintain their mission-driven ethos past a five-to-seven-year timeline. As entrepreneurs, we're hungry for a different ownership model. Steward ownership is the proven solution to creating sustainable, purposeful companies that continue to contribute to society on a multi-generational timeline.
>
> —Harry Doull, Co-founder of KEAP

What's really of *value*?

Founders, owners, and impact investors are confronting fundamental questions of what they value—beyond monetary gains—and what they are willing to concede to protect those values.

Retiring founders: Valuing legacy versus liquidity

As a generation of baby boomers nears retirement, many founders are weighing the values of mission preservation, their business' independence, community impact, and stakeholder inclusion against the values of their financial exits.

The "legacy versus liquidity" challenge is particularly acute among social entrepreneurs. This generation founded their businesses to create change. In doing so, they pioneered a new vision of business as a tool for social, environmental, and cultural progress, rather than just an instrument for profit- and wealth-generation. Now faced with the question of their own wealth and retirement, many are asking: What is it worth to ensure that legacy is upheld and that companies maintain their values, and/or provide for the ongoing economic inclusion of employees and other stakeholders? Having seen the fates of other peer businesses post-acquisition, founders are looking for viable alternatives to exiting to private equity or a larger company. They know that selling means an erosion of mission, quality, and relationships.

To maintain their companies' independence and preserve their missions, these founders are being forced to ask themselves: What am I willing to personally sacrifice or contribute to protect those values and my company's legacy going forward? How much do I really need, and what am I willing to "leave on the table" to ensure that the business remains successful and independent and that stakeholders are rewarded for their efforts and loyalty?

Impact investors: Valuing returns to *who* and *what*?

The mantra of impact investment has been " do well by doing good"; the assumption is that positive impact can be generated within the conventional investment operating model, and alongside market-rate returns. Impact investing hinges on this belief that more equity value growth means more impact. This logic assumes that companies do not need to make trade-offs between impact and their profit-generating activities.

Following this logic, it is fair and good for us as impact investors to expect market-rate returns across our investments. We require our investments—even our impact investments—to be non-concessionary, with the presumption that these market-rate returns will have no negative effects on the business or other stakeholders.

Based on what I have seen happen to other publishing companies that have been sold to other companies, it is hard to see how many of the aspects of Berrett-Koehler that are most valuable—to all of our company's stakeholders—and distinctive would endure if the company was sold. As the founder, it's been important to me that the company has an ownership structure that will allow it to remain independent, operate in the interests of all of its stakeholders, adhere to its fundamental values and purposes, and preserve its many distinctive practices that support its mission of connecting people and ideas to create a world that works for all.

—Steve Piersanti

While many investors and entrepreneurs we spoke with wished this tradeoff did not exist, entrepreneurs were clear in confidential conversations that they make tradeoffs between the quality and scale of their impact and delivering a market-rate return every day, but this tension is often a taboo topic in boardrooms. Both entrepreneurs and investors need explicit frameworks around multi-dimensional ROI in order to have coherent and sensible conversations about these tradeoffs.

We also heard from a handful of pioneering impact investors who question the validity of the "equity value growth = more impact" logic. These investors are rethinking how to measure ROI when it comes to impact investments, and questioning whether market-rate returns are the appropriate measuring stick for sustainable businesses and impact. They are looking for returns that are right-sized with what the company and stakeholders need, as well as what the system can feasibly handle. Lastly, they are reassessing conventional time-fixed horizons in their investment and fund structures.

Rather than *doing good*, these investors are assessing whether short-term investments may actually impede the quality and scale of their impact. Focused on maximizing short-term returns to investment capital, the model often requires businesses to grow at a rate that may not only be unsustainable, but also dilute the quality and scale of impact.

The drive for market-rate returns also often shifts wealth to shareholders at the expense of employees, community members, and the environment. It continues to serve capital over other value creators, like labor and the environment.

As impact investing evolves as a sector, investors are asking themselves whether conventional investment models are fundamentally compatible with the goals of creating a more equitable, renergative economy. If our objective is to support social enterprises to tackle the world's most acute and challenging problems—to address the climate crisis, solve homelessness, and support underserved communities—we need to examine whether the tools we employ address or perpetuate the systemic problems in our financial system.

If we truly understand businesses to be vehicles for ongoing value creation, rather than merely profit-returning commodities, how do we value them and what should our return and timeline expectations be? And who should share in that value?

Impact investing: *How* is just as important as *what*

Investors and entrepreneurs are increasingly approaching capitalization, ownership, and governance through the lens of inclusion and equality. As a result, there is a growing awareness that how companies operate and how investors participate is just as important as what products and services the companies create. Investors committed to addressing issues of power and wealth inequality, inclusion, and mission-preservation are beginning to ask themselves some fundamental questions:

- What governance, finance, ownership, and inclusion structures are available to create more opportunities for more stakeholders, such as workers, ecosystems, communities, and regional economies?

- How do we incorporate social justice ownership and governance metrics into our impact assessments?

- What's needed on funding and transactional levels to ensure that these structures are possible and sustainable?

- What are the appropriate investment vehicles, term lengths, and return expectations for these types of investments?

We believe that how business operates is every bit as important as what product or service it's selling. And investment structures—who owns the business, how liquidity is provided, who makes decisions, etc.—are an incredibly powerful lever in defining that how.

— Aner Ben-Ami, Founder of Candide Group

Example: Organically Grown Company

Organically Grown Company (OGC) is the largest organic produce distributor in the Pacific Northwest. In 2018, the company transitioned from an S Corporation with an Employee Stock Ownership Plan (ESOP) into a steward-ownership structure with a multi-stakeholder governance design. In order to buy out previous shareholders and recapitalize its business, OGC leveraged a combination of debt from RSF Social Finance and (non-voting) equity from Purpose Evergreen Capital, Candide Group, Natural Investing, company founders, and other similarly aligned investors. The unique deal structure and governance design ensures that everyone who contributes to the company's successes—including employees, customers, vendors, farmers, and investors—participates in its governance and benefits in a share of the returns. The impact of this investment is only possible because of OGC's steward-ownership structure, which ensures that the company will never be used for profit-maximizing purposes or sold for private profit. It sets up the company to deliver on its environmental and social mission over the long-term, without pressure from shareholders to sell the business.

The purpose trust ownership model embeds OGC's commitment to sustainable agriculture and business at the center of our governance and financing structure. It enables us to bring on aligned financing to increase our impact, while also sharing real-time economic rewards with our all our stakeholders who contribute value to our business. This structure is powerful because it aligns and motivates all stakeholders to row together toward our common goal

—Elizabeth Nardi, CEO of Organically Grown

Tension between growth and mission

Balancing growth and mission integrity is hard. Growing without undermining a company's original mission is a challenge that was often named in our conversations. While growth is seen as a pathway to long-term survivability, economies of scale, and improved security, a company's mission is understood as its reason for existence. To sacrifice the quality of a company's products, its relationships with stakeholders, or its sustainability practices in the pursuit of growth is often perceived as antithetical to its purpose. Yet without a healthy, thriving business, companies could not pursue their missions at all. Finding the balance between these poles was a challenge consistently named by businesses on this learning journey.

We also heard from several entrepreneurs who are interested in scaling their social and/or environmental impacts through business growth. However, these entrepreneurs were often reticent to bring on equity investors out of fear that it would result in a loss of control over the business and its purpose.

Key takeaways

Across these varying groups, the message was clear: Conventional legal and financing solutions fall short of the business and mission needs of social enterprises. As the businesses face shifting generational, capital, and operational challenges, appropriate forms of governance are needed that will enable them to sustainably grow and pursue their missions. Here is what is missing:

- New alternative forms of ownership: Long-term ownership solutions that keep control within companies and that prevent them from being sold in the future for private gain are desired.

- Aligned capital: Aligned capital to address the fundamental misalignment between conventional equity and impact investing. New forms are required that remove the control and time limitations of conventional equity. This would enable businesses to sustain and grow their impact over the long-term. As impact investors, we need this to ensure that the promise of our industry—to support enterprises that are addressing the world's most pressing challenges—is kept over the long-term.

Challenges of current models

As part of this learning journey, we wanted to better understand the history, efficacy, and potential of existing alternatives to conventional public corporations. We also wanted to understand the benefits and challenges of these legal structures, and the cultural and financial factors that motivated the selection of these structures. To do so, we interviewed businesses with Employee Stock Ownership Plans (ESOPs), cooperative, and family-owned business structures, as well as the legal and finance professionals who specialize in them.

Employee Stock Ownership Plans

What is it? Employee Stock Ownership Plans (ESOPs) are regulated by the Employment Retirement Security Act of 1974 (better known as ERISA). In an ESOP conversion, a business is sold to a retirement trust that benefits the company's employees. ESOPs have several tax advantages, including that stock and cash contributions to the ESOP are tax deductible. ESOPs may include employee representation in their governance structures, but the structure does not guarantee broad-based participation.

Although the tax benefits are considerable, dozens of businesses we spoke to this year are struggling to maintain their ESOP plans and succeed in business. We heard from smaller businesses with unstable or less secure revenue streams that are struggling to manage cash flow and keep up with their plans' buyback options. Others we spoke to are unable to reinvest in their businesses, employees, and innovation due to crippling buyback obligations. Here's a sampling of the common challenges we heard:

- Profit-maximizing by design:
Under the ERISA legislation, the trustee of an ESOP has the fiduciary obligation to maximize profits and share value for the benefit of its current shareholders (employees). Even in businesses that are democratically governed by employees, the ESOP trustee has a legal duty to prioritize the value of the ESOP retirement amounts above other concerns, which could include considering the sale of the company. This is also true for ESOPs that are also Public Benefit Corporations.

- Threatening stock buyback obligations:
The company has obligations under ERISA law that require it to buy back shares from workers who leave or reach retirement age. The valuation is not set by the company, but by an outside evaluator, and can fluctuate year to year according to many unpredictable market forces. If the company is not able to service these buybacks—for example during a wave of retirements or a company downturn—the ESOP may need to sell to outside investors to create liquidity for retiring shareholders. ESOP Trustees must consider share value maximization as the driving decision criterion, versus mission or long-term continued employment.

- Administrative complexity:
ERISA is an esoteric piece of legalization that requires unique legal knowledge. Professional help is commonly needed to design ESOP documents; strictly adhere to fiduciary structures and document all governance decisions; continually manage employee stock accounts and repurchase obligations; conduct annual third-party valuations; and respond to Department of Labor Audits of the ESOP Plan Fiduciary Liability. Insurance is also needed.

- Undiversified retirement and limited compensation design:
For employees, ESOPs consolidate employees' retirement investments in the company, leaving them and their futures uniquely exposed to financial and business shocks. Allocating stock to employees as a significant component of compensation may limit other forms of compensation, which can create issues for recruiting and retaining a diversified talent base.

Single-stakeholder cooperatives

Single-stakeholder cooperatives are often limited in their ability to include other stakeholder groups in governance and capital participation. The challenges of single-stakeholder models are well documented: Focusing ownership on the needs of one stakeholder group, whether workers, consumers, or producers, can pull a business away from its larger mission and ultimately erode its performance. This myopic approach can cause the cooperative to overlook the needs and perspectives of other stakeholder voices, and lead to cultural tensions between member- and non-member stakeholders.

As a result, multi-stakeholder cooperative forms are gaining traction in the US. Rather than concentrating ownership in a single class of owners, multi-stakeholder cooperatives distribute ownership across a heterogeneous member base. Determining the distribution of patronage dividends and voting rights across stakeholder classes can be challenging, however, as historically patronage has been based on the economic value each member brings to the cooperative. These cooperatives often include consumers, vendors, employees, and other stakeholder groups that contribute to the business' success. The relevancy of a multi-stakeholder form depends on a company's industry, culture, size, and maturity.

Example: Fifth Season Cooperative

Based in Viroqua, WI, Fifth Season Cooperative is a regional food distributor of locally grown produce, meats, dairy, and other products serving Minneapolis, Milwaukee, Madison and Chicago. A multi-stakeholder cooperative, the Fifth Season Cooperative includes six member classes of stakeholders throughout its supply chain: producers, producer groups, processors, distributors, buyers, and workers.

Family ownership

The company's current leadership is aware that family businesses struggle to maintain their values and remain independent, especially in times of leadership transition and family crisis, such as death or divorce. Empirical research shows that most family-owned businesses struggle to maintain independence beyond one generation[4]. Globally, only one in three survives this generational transition[5]. The others either go out of business or are sold by increasingly numerous and distant family members, who are often detached from the company's mission and view it primarily as an asset.

To address these risks, family businesses are looking for solutions to ensure that their missions, values, and successes continue, independent of familial succession. Founders want solutions to protect their legacies for generations to come, while providing their children (and future grandchildren) the flexibility to direct their own paths and financial outlooks. Structural protections independent from family members are needed to ensure a company can remain intact in the face of family conflict or a succession challenge.

	Employee Stock Ownership Plans	Family-owned Businesses	Cooperatives	Steward-owned	Benefit Cooperation
Profit serves	Employee shareholders	Family members	Cooperative members	Purpose	Shareholders
Company value is	Privatized for employees	Privatized for family members	Privatized for cooperative members	Belongs to the commons, not for sale	Varies
Fiduciary obligation	Maximize profit/ share value	Maximize profit/ share value	Maximize member benefit & profit	Redefined / Purpose maximization	Maximize profit / share value & mission allowance
Governance control	Shareholder board, may include employees	Family members / Shareholder board	One member, one vote	Stewards connect to operations and mission	Shareholder board
Company is a commodity, saleable to highest bidder	X	X	X		X

[4] Deloitte. (2019, August 19). Business Roundtable Redefines the Purpose of a Corporation to Promote ' An Economy That Serves All Americans? Retrieved from https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Strategy/gx-family-business-nextgen-survey.pdf
[5] Ibid.

Key takeaways

- Moving beyond shareholder-primacy:

Not all of these alternative ownership forms inherently move beyond the shareholder-primacy paradigm to instill stewardship in the leaders and owners of a business. While many private business owners may act as stewards, reinvesting the bulk of their profits back into their companies and their missions and sharing profits with stakeholders, this values-based way of operating is not protected in any legal structure. What's more, the corporate boards of these businesses are still expected to maximize shareholder value. In all these models (ESOPs, cooperatives without exit protections, and family-owned businesses), shareholders still hold control and can force the company to prioritize profit-maximizing. To truly change how businesses make decisions and who they ultimately serve, we need models that turn off the default profit-maximizing switch by separating economic and voting rights and/or redefining fiduciary duty.

- Flexible solutions:

More alternative ownership forms are needed that are flexible and can be adapted to the cultural and capital needs of an organization. Business owners desire more flexibility to determine how and to whom control of their businesses should be passed on over time, and who should share in the economic benefits. Many are seeking hybrid solutions in which stakeholders and investors can participate in governance and economic upside or family members can participate in new ways, all while ensuring a company's mission is protected.

- Research on governance and impact metrics is needed:

As alternative ownership forms gain traction, new questions are emerging about the benefits, challenges, and efficacy of different models. Specifically, entrepreneurs, investors, and leaders working to create a more inclusive and equitable economy want to understand the best practices for mission-protection, stakeholder inclusion, and governance design across legal forms. Beyond the legal structures (e.g., trust models, ESOPs, cooperatives), practitioners want to understand the specific tools and frameworks that exist for including employees and other stakeholder groups in a business' governance and profits. We need more research on these solutions, and how governance and financial inclusion creates more and better outcomes for workers, communities, and regional economies. This will require developing new ways of measuring business value-creation.

Alternative finance

Alternative financing is in the midst of a renaissance. Both within the impact sector and beyond, there is increasing interest in innovative financing approaches that leverage time-tested structures, e.g., revenue-based returns and non-voting structures, to meet the needs of both young and mature mission-driven businesses. These structures are integrating impact into ROI in new and innovative ways. Importantly, many of these forms are designed to pay back investors without selling the underlying companies.

Emerging alternatives

Across the funds and deal structures we explored in this research, we identified emerging approaches to time horizons, liquidity mechanisms, and investor rights. Many of these investment structures depart from the norm, and may be new and foreign to some impact investors. Awareness building, education, and networking are required to make these forms more accessible to social enterprises and investors.

Long-term horizons: Evergreen and permanent capital vehicles

Evergreen and permanent capital structures help address the misalignment between sustainable impact and fixed-term fund structures, which often require an exit just as a company is beginning to scale its impact. By providing long-term, patient capital, these funds are enabling companies to sustainably grow and take a long view towards their impact without the restrictions of conventional fund structures or exit requirements.

Example: Cranemere—Publicly traded holding company

This model requires a holding company that retains companies as long-term assets, and a public market to provide liquidity to investors. Valuations are based primarily on the net-asset values of the underlying companies.

In our conversations, we found many entrepreneurs were generally warm to this approach due to its long-term capital focus. At the same time, many were uncertain that a structure with absentee owners could truly steward their companies' missions. These structures often require centralizing ultimate control of a company in the hands of a few distant decision makers overseeing a portfolio.

Common challenges: Evergreen and permanent vehicles

- Risk/time ratio:
Long-term and evergreen investments require investors to reevaluate the ratio between risk and term length. These structures are challenging for investors with fixed-term funds, as they often leave limited recourse for "rushing" the materialization of returns to fit into a fund time horizon.

- Security of mission-oriented structures:
Fundamentally, voting ownership creates the governing reality of a company. In hold-co or family-office ownership structures, which assign majority ownership positions to holding companies, entrepreneurs have to accept that the preservation of their company often relies on the continued good will and internal dynamics of the holding firm.

Alternative liquidity options and structured exits

Without a fixed term, evergreen funds require alternative liquidity structures for investors. Some of these funds opt to create secondary markets with fixed liquidity windows. Others secure liquidity by exchanging shares on public markets. There's also the option for investors to achieve liquidity through stock buybacks, with the company generally committing to buy shares back at a predetermined valuation.

Example: Purpose Evergreen Capital—Secondary market liquidity

Purpose Evergreen Capital is structured as a German holding company that invests in the US and EU. It is an example of an evergreen capital vehicle with a secondary market. Returns rely on dividends from underlying assets, which are commonly non-voting shares in portfolio companies. Liquidity is secured through a secondary market operated by GLS bank as a partner. After a holding period, investors can trade shares on the managed secondary market, which offers additional upside potential and liquidity for investors without changing the control structures of the underlying companies.

Common challenges: Alternative liquidity options and structured exits

- Lack of assessment standards for alternative investments:
All the alternative investment structures we surveyed sit in a "middle area" on the conventional risk/return and debt/equity spectrum; almost all of these structures mix qualities of debt and equity to achieve a coherent risk/return ratio. As such, it's often difficult to evaluate these structures in relationship to a given portfolio's risk/return and timeline targets. We heard from many investors who were exhausted with having to learn and shape the rules of every different "alternative" investment deal. This increases transaction costs for investors, and makes the fundraising deal cycle more costly and confusing for entrepreneurs.

- Return timelines:
In our conversations we found very few investors that were not working on a five-to-seven-year liquidation timeline. This creates numerous challenges for mission-driven companies. Primarily, this makes long-term investment extremely difficult to secure for all but the most successful companies because of the amount of leverage they carry. Second, we heard from entrepreneurs that investor board members become substantially less focused on their company's impact as funds come closer to closing. This leads directly to the conglomeration of companies and the dilution of their values. The only companies that appeared immune to this were those that had managed to keep controlling majority ownership stakes in the hands of their founders.

Non-voting/limited-right structures

Non-voting structures require investors to give up some traditional controls. However, in our research we found a strong desire among entrepreneurs to see more of these structures, which allow them to retain control and sustain mission focus in their businesses. On the flipside , we found mixed sentiment among investors, who often desired control even in minority positions. Negotiations around control rights are a new territory for both groups.

Example: Silicon Valley" super voting shares

The Silicon Valley super voting share structure is one that has quietly gained tremendous traction among some of the largest companies in the world. In this structure, a class of super voting shares is allocated to founders, giving them greater control than their financial holdings might otherwise dictate. This model has been the subject of some controversy, as it challenges notions of "shareholder democracy," but it speaks to a broadening distrust of absentee owners' ability to drive innovation, growth, and mission

Example: Non-voting public market shares

An even more radical model that has emerged from a smaller group of Silicon Valley tech elite is offering non-voting shares on public markets. The non-voting IPO of SNAP (Snapchat) provides one prominent example. This is actually common in the Danish stock market, but controversial in US markets for the reasons mentioned above. However, these new offering structures may provide a new model for impact companies to follow[6].

Common challenges: Evergreen and permanent vehicles

- Defining protective rights:

To protect investors and reduce risk within limited-right and non-voting structures, investors and companies must negotiate appropriate protective provisions. This often manifests as a mix of conventional preferred equity protections and debt covenants. However it's done, this approach raises several questions about aligning incentives that require time, creativity, and flexibility to address.

- Culturally novel:

Non-voting/limited-right structures can be philosophically and psychologically challenging for many investors, who often desire board seats or voting control to mitigate risk, and who feel they can provide unique value as governing members of a corporation.

[6] A note on Silicon Valley share structures: In our research, we found a strong distrust of the Silicon Valley models (albeit a resignation to their use) among investors. The models are highlighted here to illustrate the trend of increasing distrust in absentee investor-control models.

In our conversations, we found a significant disconnect between how much value investors felt they brought to the board room and the value perceptions of entrepreneurs.

Startup financing

We are seeing a rapid increase in the awareness and deployment of promising new alternative financing structures. Commonly including "structured exits," these alternative financing tools support sustainable long-term oriented growth, corporate independence, and mission preservation. There is an ongoing debate on what best practices are in this space. Capped-return revenue-share instruments appear to be gaining the most traction among entrepreneurs and investors.

Common challenges: Startup financing

- Lack of assessment standards for alternative investments:

As mentioned above, these structures lack assessment standards, which means they can be confusing to investors and entrepreneurs and unknown to many lawyers. As a result, transactional costs on these deals may be higher, and fundraising cycles longer.

- Mis-aligned fund structures:

Many investors have fund structures whose target returns rely on large exits and high-risk bets. A profitable growing company will almost always struggle to produce these 10x+ cash returns to investors without selling the underlying business. Interested investors should seek integrated fund models, which allow for lower-risk investments with mid-tier return potentials.

Revenue-based financing: An alt-finance favorite

More and more market-driven investors are embracing revenue-based financing as an acceptable middle ground between equity and debt. These structures are usually booked as equity, but are redeemed gradually using company revenue. There are often clearly defined schedules for starting the revenue returns after a holding period. These structures work for companies at many different stages of growth, so long as revenue and some modest profits are evident. They also provide clear downside protection for investors via the company's revenue stream, which is seen as a fair trade-off for the loss of control and potential limits to the investment's upside.

Crowdinvesting: New sources of mission-compatible capital

Although still in its nascency, crowdinvesting has experienced rapid growth since 2016, when equity-based crowdfunding became legal through the Securities and Exchange Commission (SEC). Now anyone can participate in equity investment, although with a few limitations on the amount startups can raise annually and individuals can invest. In 2019 transaction values on crowdinvesting platforms amounted to $816.7 million from more than 5,000 offerings in the US alone. Crowdinvesting represents an enormous economic opportunity, opening the door for individual investors previously shut out of venture capital. Whether through direct-public offers or regulation crowdinvesting, this approach to investing is also an opportunity for mission-driven businesses to raise aligned capital without giving up operational control or undermining their long-term independence. Benefits to entrepreneurs and companies include:

- Lasting independence:
Non-controlling shares will not put the founders at risk of having an exit forced upon them by investors; control can remain inside the organization.

- Fair pricing:
Free market-based project/company valuations result in more favorable terms than companies might get from conventional investment negotiations.

- Lower cost:
Volume of crowdfunding platforms results in lower transaction costs.

- Equitable capital: More accessible funding for female entrepreneurs and people of color. 22 percent of founders on crowdfunding platforms are women, compared to 2 percent for conventional venture capital. The equity crowdfunding platform Republic reports that 25 percent of its investments go to Black- and Latinx-led companies.

Example: Equal Exchange

A leader in Fair Trade practices, Equal Exchange is a worker-owned cooperative and coffee company based in Massachusetts. Since 1986, Equal Exchange has successfully raised more than $16 million in non-voting preferred shares from its community of over 600 people and institutions. Its investors understand that Equal Exchange is a steward-owned cooperative that will never sell for private gain or go public. Their investments have enabled the company to grow and succeed without undermining its values, mission, or cooperative structure. Here's how the stock works:

- Preferred B Shares (investor shares) have a fixed price and can only be sold back to the company, but must first be held for a minimum of five years.

- Investors receive an annual non-guaranteed dividend with a target rate of five percent. Returns have varied between three and eight percent since 1989.

- Worker-owners hold Class A voting shares, which must be sold back to the company when the employee/member leaves Equal Exchange.

Equal Exchange's equity model is designed so that our investment capital works at the service of our mission, rather than the other way around. Our investors and lenders know that we won't shortchange our co-op workers/owners or our producer partners just to pad the profits of outside investors. We really are all in this together.

—Dan Fireside, Capital Coordinator, Equal Exchange

Key takeaways

Financing solutions are available for mission-driven businesses interested in maintaining control and independence. However, more knowledge, education, and network-building are required to disseminate these concepts among businesses and investors. Peer-to-peer networks of impact investors are needed to activate capital for these structures. Entrepreneurs and businesses should also look to their customers and the broader community. These stakeholders represent an enormous opportunity for businesses to raise affordable mission-compatible capital.

Stewardship: A broader movement

Beyond corporate ownership, stewardship models are emerging as alternatives to conventional ownership in other sectors as well. Specifically, we are seeing a rise in local economic and real estate development projects aimed at retooling how assets are owned and controlled in communities. Moving away from extractive models of real estate investment, these projects seek to move assets into the commons under multi-stakeholder community steward-ownership models.

Example: Kensington Corridor Trust

The Kensington Corridor Trust (KCT) is one of a handful of innovative social real estate initiatives currently working on ways to improve urban revitalization by rethinking the systems of private real estate investment, public economic development, and philanthropic community building/services. A partnership of Shift Capital, Impact Services, and others, the KCT goes beyond the question of how to share or reinvest funds in communities to envision the next phase of urban revitalization based on community self-governance and the steward-ownership of assets.

The KCT partnership seeks to foster the equitable economic revitalization of Kensington Avenue and its surrounding neighborhood through local partnerships, strategic programming, and an innovative approach to moving real estate assets out of the speculative private market. Leveraging patient, flexible capital and a long-term "community trust" vehicle, the KCT plans to de-commodify real estate assets and transition them into community ownership. If successful, the KCT would pioneer a new model of community steward-ownership and local economic development with the potential to keep control and ownership within the community, build social and community wealth, and ensure long-term affordability in the neighborhood.

The Neighborhood Trust vests ownership and control with the neighborhood, rather than with outsiders, and protects and maintains long-term affordability.

– *Communities Need Neighborhood Trusts*, Spring 2019

Key concerns (FAQs)

A goal of this learning journey was to better understand the perceived risks, challenges, and hurdles for businesses and investors interested in steward-ownership and alternative financing. As a relatively new concept in the United States, many had questions about steward-ownership, its history, and its track record. Others had questions and concerns about steward-ownership's core principles and how it retools the relationship between capital and control. Below, we explore the frequently asked questions that emerged from our conversations.

Q: There's very little precedent for steward-ownership. What do these structures look like when things get hard?

A: Although novel in the US, steward-ownership has been tested for over a century in Europe. Leaders such as BOSCH, Novo Nordisk, Zeiss, and hundreds of others have proven steward-ownership to be a viable, competitive way of doing business. In Denmark the combined market capitalization of steward-owned corporations represents 50 percent of the entire value of the Danish stock market index. Studies from Copenhagen University and Yale University with data from Danish foundation-owned (i.e., steward-owned) companies show that foundation-owned companies have a higher survival probability than conventionally-owned companies. While conventionally-owned companies have a survival probability of 10 percent after 40 years, foundation-owned companies have a 60 percent survival probability over the same period. In addition, foundation-owned companies have a higher employee retention rate and pay higher wages, while at the same time being roughly as profitable as non-foundation-owned companies.

Q: Perpetuity is a long time. Can these structures be unwound or reversed if it is in the best interest of maintaining financial viability or the company's purpose?

A: While steward-ownership structures are designed to protect independence for the long-term, the structures are designed such that in exceptional circumstances the company can transfer control or be dissolved. Legal provisions ensure that the decision to unwind the structure is not motivated by self-interest, and profits from a sale cannot be privatized.

Q: Can steward-owned companies take on growth capital?

A: Steward-owned companies can still bring on outside capital to grow. Unlike investments in conventionally owned businesses, which guarantee investors controlling rights over the business, investments in steward-owned companies are structured to not take a voting stake in a business.

Q: If investors hold non-voting equity, can they still serve on the board or act as advisors?

A: Investors can sit on a steward-owned company's board or serve as advisors. The distinction in steward-owned businesses is that economic participation does not by default guarantee control in the business. Should the stewards (i.e., entrepreneurs) of a business decide to invite an investor to the table, they may accept.

Q: Without stock options there are no long-term compensation and performance incentives for board members, executives, or employees. How do these businesses attract talent?

A: Steward-owned businesses develop other ways to build in incentives, e.g., deferred compensation, profit-sharing models, or other purpose metrics that align interests. For example, OGC's cash flow waterfall ties investor returns and employee profit-sharing. The better the company performs over a set of thresholds, the more profits go to employees.

Q: Why not just a Benefit Corporation? Would that protect my business for the long-term?

A: Public Benefit Corporations (PBC) represent an enormous leap forward in redefining the role of businesses in society. Although this form takes a company's purpose into consideration, it ultimately does not provide structural protection. The underlying governance and economic control of PBCs is ultimately still held by shareholders, who can undo benefit corporation provisions and introduce terms that drive profit and share-value maximization. If the company's ownership changes, for example through an acquisition or IPO, the PBC structure can simply be undone by the new owners.

In contrast, steward-ownership structures fundamentally retool the driving forces behind a company's decision-making. In these structures, a company's mission is not simply allowed as in the case of a PBC—the mission is the core driver of the company's decision-making. The structure prevents a company from exiting (at least in the traditional sense), ensuring long-term protection of the company's PBC status.

Q: If companies don't give economic shares to workers, can employees build wealth in steward-owned companies? Does steward-ownership address wealth inequality and long-term retirement options?

A: In steward-owned companies, profits serve a purpose. Profits are used to pay back capital, reinvested back into the business, or shared with stakeholders. Evidence shows that this results in better worker representation, pay, and benefits. Steward-ownership often includes some form of profit sharing. In the case of an Employee Ownership Trust (EOT), the purpose of the business and its owner (the trust) is to benefit employees. In other steward-owned forms, businesses may also share a portion of their profits or economic shares, the proceeds of which can be invested in longer term instruments such as qualified retirement plans.

Looking ahead

We undertook this learning journey to assess whether steward-ownership is relevant to businesses in the US and what challenges they face in pursuing these structures. What we learned is that steward-ownership forms are needed. From startups to mature independently- and family-owned businesses, social enterprises need new structural designs that align with their founding purposes and values. Conventional structures and financing tools, which are based on a model of profit-maximization and extraction, fall short of the vision of sustainable, renewable social businesses and investments. Steward-ownership addresses many of the pain points felt by entrepreneurs as they grow and succeed in their businesses.

We face tidal forces in our economy that will either deepen economic divides or force a large-scale shift to more sustainable models. To survive, we must address the systemic failures of shareholder capitalism. We need new models that enable us to harness the powerful potential of business to serve society and the planet through entrepreneurship, innovation, and a decentralized economy. By retooling what drives decision-making in businesses and addressing the underlying dynamics between power and money in businesses—the most powerful actors on earth—steward-ownership has the potential to change the economy.

Despite growing interest and demand for alternative structures, implementation remains difficult. Legal fees can run high, and expert knowledge is often required to navigate these new forms and financing structures. What's more, many remain unaware of these alternatives. To make these structures more accessible and affordable to the next generation, we need to build awareness, develop infrastructure, grow networks, and make capital more accessible.

- Awareness:

Steward-ownership remains largely unknown. To increase awareness, we need to build the field of steward-ownership, and generate awareness through public speaking, publications, and networking across the investor, entrepreneurial, legal, and political communities.

- Research and policy:

Research on the impact of steward-ownership and alternative investment is limited. We need to:

-Work with academic institutions to study the impact of steward-ownership on business, corporate behavior, wealth-generation, and stakeholder health.
-Collaborate with legal and policy experts to improve available forms and develop more accessible models.
-Propose state and federal policy changes to accelerate wider adoption.

- Develop infrastructure:

The barrier to entry to steward-ownership remains high. Bespoke knowledge is often required to set up and finance a transition to steward-ownership. We can lower the cost and difficulty of this transition through open-source resources, practical toolkits, templates, and professional training programs for lawyers and investors.

- Network-building:

With the field of steward-ownership still in its infancy, we lack the necessary networks of academics, business leaders, lawyers, and investors for peer-to-peer learning, support, and collaboration. We need to grow these networks of leaders to foster collaboration and the exchange of ideas and experiences, and provide support to companies transitioning to steward-ownership and raising funds on alternative terms.

- Capital:

Transitions to steward-ownership often require recapitalization or growth capital. We need to educate and develop a pipeline of investors to deploy catalytic capital in the first wave of steward-ownership conversion and steward-owned start-up raises.

Steward-ownership

Steward-ownership represents a viable alternative to conventional profit-maximizing ownership that fundamentally retools the goals and incentives that guide decision-making in companies. By doing so, it has the power to transform the economy. The concept of "steward-ownership" harnesses the power of entrepreneurial for-profit enterprise, while preserving a company's essential purpose to create products and services that deliver societal value and protecting it from extractive capital. These structures replace shareholders and financially incentivized managers at the helm of businesses with people who are connected and committed to a company's purpose, employees, and broader stakeholder community. Businesses following this approach are not simply distant investment vehicles focused on short-term shareholder profit-maximization, but connected living-enterprises oriented to delivering the long-term success of the business' underlying purposes and value-maximization for all stakeholders.

Often trusts, cooperatives, or employee-owned companies, these models have been tested for over a century. All of these companies have fundamentally redefined ownership by committing to two principles:

(1) Self-governance:

Control remains inside the company with the people directly connected to stewarding its operation and mission. With the control of the company held in a trust, it can no longer be bought or sold.

(2) Profits serve purpose:

Wealth generated by these businesses cannot be privatized. Instead, profits serve the mission of the company, and are either reinvested in the company or its stakeholders, or donated. Investors and founders are fairly compensated with capped returns/dividends.

Industrial giants such as Novo Nordisk, BOSCH, and Zeiss, as well as Mozilla, OpenAI, Newman's Own, and dozens of startups and mid-sized businesses (and thousands of business in Denmark) are proving steward-ownership a viable, successful third way of ownership. These businesses not only outperform traditional for-profit companies in profit margins, they are more likely to emerge from financial crises intact, and offer significantly less volatile returns. Compared to conventionally owned companies, steward-owned companies also pay employees higher wages with better benefits, have lower employee attrition rates, and are less likely to reduce staff during financial downturns.

Steward-ownership not only enables companies to better internalize externalities, acting more responsibly towards people and the planet, it also helps combat the growing wealth gap caused by the accumulation of inherited wealth. Because steward-owned companies cannot be inherited, they help prevent dynastic wealth accumulation. What's more, they prevent owners from extracting excessive profits from businesses. Instead, steward-owned companies are "self-owned." These businesses belong to the commons, serving their purposes and the interests of all the stakeholders who contribute to their successes, and helping to build a more equitable, regenerative economy. In this sense, they democratize capital.

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