Stewardship Ownership

Rethinking ownership in the 21st century

presented by
Purpose Foundation
What to expect from this book

This publication is intended to shed light on the different ways a company can incorporate accountability, mission integrity, and lasting independence into its ownership structure. We look at how steward-ownership enables companies to protect their values regarding the environment, society, and their employees in their legal DNA. And we explore the positive impacts these structures have on the profitability, longevity, and culture of corporations. Our goal is to offer a viable alternative to the prevailing model and the growing market trend of corporate mergers and acquisitions, which has seen large corporations swallow up mid-sized companies and thus increased market centralization. This book offers examples and testimonies of entrepreneurs and investors who are doing things differently. Readers of this book will explore both the philosophical and historical foundations of steward-ownership, and the practical steps companies have taken to implement these structures.

In the first section of this book, we present steward-ownership, a time-tested, proven alternative to conventional ownership that commits companies to two key principles: self-governance and profit serving purpose. We explore why ownership matters, how the cultural and legal definitions of ownership have changed over time, and how the meaning of ownership varies across cultures. We dive deep into the history of steward-ownership, its principles, and the impact these structures have on businesses, employees, and society. We survey the current legal landscape of steward-ownership structures and explain how they can secure a company’s mission and integrate independence into its legal DNA. Lastly, we discuss alternative financing and the instruments available to entrepreneurs and investors that make transitioning to steward-ownership or investing in steward-owned companies feasible. Aner Ben-Ami, Founding Partner of Candide Group, provides a practitioner’s perspective on the shortcomings of standard investment instruments and the opportunities for improving how we invest in social enterprises.

In the stories of steward-ownership, we explore the experiences of founders and owners from across Europe and the United States who have implemented steward-ownership to protect their companies’ missions and independence. The companies from which these case studies are drawn range from larger industrial enterprises to small sustainable startups and mid-sized businesses. Together they illustrate the range of motivations behind founders’ and organizations’ decisions to transition to steward-ownership. We hear directly from Juho Makkonen, Sharetribe co-founder, and Ernst Schütz, former owner of Waschbär, on the ownership challenges business face in different stages of their biographies, from VC financing to succession planning. These case studies also highlight the myriad of ways steward-ownership can be structured depending on the needs, capacity, and maturity of a business.

In the last section, Prof. Colin Mayer (Oxford University), Albert Wenger (Union Square Ventures), and Thomas Bruch (Globus) share their perspectives on ownership. In our interview with Prof. Colin Mayer, we take a historical and philosophical look at the concept of ownership. Underlining the urgency with which we need to address the issues of ownership and market centralization, Albert Wenger, one of the most successful venture capitalists in the United States, calls for the boundaries of ownership to be redrawn, and dares us to experiment. Lastly, Thomas Bruch, CEO and owner of Globus, provides an intimate look into the motivations of steward-owners and the path from family-ownership to steward-ownership.

This book was published by the Purpose Foundation, which serves a global community of entrepreneurs, investors, and citizens who believe companies should remain independent and purpose-driven for the long-term. You can learn more about the Purpose Foundation, its network, and its work on Page 129.
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Foreword
Why we need to rethink ownership

In the heyday of the Roman Empire, the role of emperor was not inherited or bought. Instead, power was passed on to the most capable, eligible successors, who were selected and trained before being made into emperors. The decline of the Roman Empire is marked by the transition from this meritocratic system to nepotism, when emperors began passing their thrones on to their sons and relatives.

What we can learn from the Romans

The principle that offices, powers, and values should not be sold or passed on to blood relatives but should instead be entrusted to the most capable individuals was not only essential to the success of the Roman empire – it’s thanks to this meritocratic principle that we’ve been able to build the modern state, with its large, functioning public administrations, efficient, effective militaries, and robust educational infrastructure. In each of these institutions, the capacity for achievement and success depends on the recruitment of the most capable, well-trained individuals. It’s only in one area of society that such positions, which come with great responsibility, are still inheritable: business.

Why? This stems from our societal and legal understanding of ownership. Our laws today define corporate ownership not as an office or a responsibility, but as an investment and a tool for generating personal wealth. If we viewed ownership as a responsibility or appointed office, could we in good conscience use business as a mechanism for generating personal wealth?

Cultural definitions of ownership: investment vs responsibility

Let’s look at a culture that has a very different relationship to ownership: Japan. 53 percent of the companies founded before 1750 are Japanese. What’s the secret to their longevity?

1.) They rely on meritocracy rather than nepotism. Successors are selected based on talent and ability rather than blood relationships.

2.) Ownership is a responsibility, not a financial investment.

Many Japanese companies both large and small select capable business leaders to take over when the current generation of leaders retires. This is how Suzuki, the motorcycle manufacturer, and Canon, the manufacturer of imaging and optical products, selected their current owners and CEOs. The oldest company in the world, a hotel in Japan, uses the same process for selecting capable successors.

In contrast, in the Western world, although the roles of CEO and chairman of the board cannot be bought or inherited, ownership – the ultimate decider of these appointments – remains sellable and inheritable. What would be completely unimaginable in academia, the sale of professional positions to the highest bidder, is a matter of course for most companies. This isn’t to overlook what’s been possible thanks to this definition of ownership, such as the financing of companies by shareholders. But to accomplish this, does the company’s “steering wheel” have to be traded as a speculative commodity and sold to the highest bidder? By default, the majority owner of anything is the ruler of that thing, whether it be a company, land, or an object. The owner of this book can sell it, rip it, burn it, or read it.

They can use it however they see fit – that’s the legal premise of property. This is how the law treats companies as well: They are nothing more than things, which can be ruled, sold, or inherited by their owners.

Absentee owners and the threat of market centralization

Today, many entrepreneurs understand their businesses to be more than objects. They view ownership as a job and a great responsibility. And they understand organizations as networks of collaborative people.
Foreword

But if a business is a collaborative network, who should be in charge? And what effect does it have on a company when its future direction becomes a speculative asset to be bought by multinational conglomerates, private equity funds, or foreign investors? What we see in many companies is power being exercised by "absentee owners." Strategy, operational decisions, and culture are decided by people sitting thousands of miles away. They do not know what it means to an organization or community when they layoff employees in bulk. They do not feel responsible when regional managers bend the law in order to meet corporate goals. Absentee owners rarely understand how profit return requirements impact consumers or employees.

The mass sale of mid-sized companies to financial investors from far-flung countries isn’t worrisome because they are "foreign" investors. It’s worrisome because previously owner-managed and family businesses are being stripped of their owners – and their stewardship. They are being passed on to absentee owners, with dramatic consequences for employees, corporate culture, the environment, and our market economy. For example, while owner-managed companies often retain employees during economic crises, investor-driven companies and managers of publicly traded companies, who are responsible for producing quarterly reports, often let employees go to improve their short-term bottom-lines.

The consequences felt by the companies themselves are only one side of the problem. Economically, the disappearance of real, independent ownership is a dangerous phenomenon: More and more companies are being bought by large corporations, which has led to an unprecedented trend towards market centralization. The United States alone has lost half of its companies in the last 20 years according to a study by Cornell University. On average, companies today are three times as large as they were in 1970. Market centralization at this scale undermines our economic system, which is meant to be based on diversity, competition, and a decentralized market. Treating corporate ownership as property means that instead of having the most capable, talented, qualified people steering companies, they’re directed by anonymous money. These absentee owners do not view ownership as an obligation, but as an asset for increasing profits.

What if companies were never sold? What if instead ownership were passed on to mission-aligned people within organizations? What if we understood and legally defined ownership as a responsibility rather than an investment? What if companies were no longer legally defined as "things," but instead coupled with the responsibility of entrepreneurship and a duty to fulfill their intended missions?

Rethinking ownership

Today there is a growing community of companies that are implementing this definition of ownership into their corporate structures. These companies are featured in this book. Some are old companies, like Zeiss, whose foundation ownership has preserved its independence for more than 120 years. Some are new companies, like Sharetribe. Other are large, like Bosch, while others are small, like Ecosia. What they all have in common is a radically different approach to corporate ownership. They have all implemented ownership structures that permanently anchor their values and independence into their legal DNA. Like the Romans, responsibility is passed from one generation of stewards to the next based on their skills and values. Ownership in these organization is viewed as a responsibility. The stewards of a company control the "steering wheel" - the voting rights - of the company. The company is not viewed primarily as a source of personal profit; instead, profits serve as the "seed" for the future, and are largely reinvested rather than privatized. Decisions are never made by absentee owners or foreign investors, but by people who are deeply committed to the company, its mission, its values, its employees, and its consumers.
Introduction to stewardship
Steward-ownership is an alternative to conventional ownership that permanently secures a company’s mission and independence in its legal DNA. Solutions for steward-ownership have been found by generations of entrepreneurs all over the world. These pioneers have found innovative ways of committing their businesses to two key principles: profits serve purpose and self-governance.

These principles enable companies to remain independent, purpose-driven, and values-led over the long-term. Often structured as foundations or trust-owned companies, steward-owned companies historically have been broadly successful. Not only do they outperform traditional for-profit companies in long-term profit margins, but they are also more resilient to financial and political crises, and offer significantly less volatile returns. Compared to conventionally owned companies, steward-owned companies also pay employees higher wages with better benefits, attract and retain talent more effectively, and are less likely to reduce staff during financial downturns.

While most businesses serve to maximize profits to increase shareholder value, steward-owned companies serve a purpose. The definition of ‘purpose’ varies across organizations. For some, it’s defined by a larger external mission, such as supporting and promoting regenerative agriculture or working to ensure the internet remains free and open to all. Other companies derive their sense of purpose from what they offer, whether they are providing technology, products, or services to end customers. For others, purpose is more internal. It represents how they do business, whether that means ensuring their employees share in profits, are free to work remotely, or have the ability to self-manage. What all steward-owned companies have in common is the belief that profits aren’t the primary goal, but rather the means by which their purpose can be furthered.

In order to safeguard its purpose, the “steering wheel” of a steward-owned company, i.e., control over its management, strategy, and key operational decisions, is held by people inside or closely connected to the organization. This is unusual for many businesses, where majority control is often held by external owners. Shareholders, private equity firms, or parent companies normally dictate strategy and decisions, with the primary goal of maximizing profit and increasing their bottom line. These “absentee owners” are rarely directly involved in the business’ operation. They cannot feel responsible or accountable to the business, because they don’t directly experience the needs of their customers or employees. They don’t feel the impact of choices that maximize their financial gains at the expense of employees, suppliers or customers. This system removes responsibility and accountability from organizations, and relies on governments to regulate corporate norms and behavior. As Milton Friedman so famously put it, “There is one and only one social responsibility of business …to increase its profits.”

The idea behind a purpose-driven economy is fundamentally different. It proposes keeping responsibility for corporate behavior with the individuals in these organizations. Unlike conventional businesses, the individuals - or stewards - at the helm of steward-owned companies are deeply committed to the organization’s missions, and are involved in their operations. “Ownership” in these organizations represents responsibility and the freedom to determine what’s best for the long-term survival of a company’s purpose. Such companies are not up for sale; instead, they are deliberately passed on to capable and value-aligned successors.
Introduction to steward-ownership

History of steward-ownership

Steward-ownership is a novel idea, but not an entirely new one. One of the first modern examples of steward-ownership is the German optics manufacturing company Zeiss, founded in 1846 by Carl Zeiss. After Zeiss died in 1888, Ernst Abbe - a fellow researcher - created the Carl Zeiss Foundation, which has owned the company ever since. Abbe had been a professor of physics at the University of Jena, where he developed the mathematical foundation behind Zeiss’ successes. It was most likely here, at a public university where he benefited from the support and research of other academics, that Abbe concluded that his successes did not belong to him alone. He carried this conviction with him to Zeiss.

The Carl Zeiss Foundation ensures the company cannot be sold, and that profits are either reinvested or donated to the common good. Abbe ensured the foundation protects workers’ rights, guaranteeing them health care and retirement insurance, paid vacation, and an 8-hour work day. He also mandated that the highest salary of any Zeiss employee not exceed more than 12 times the salary the lowest paid worker receives after being at the company for two years. Today Zeiss is a successful, innovative company with over €7 billion in annual revenue. Through its charitable donations, Zeiss supports local and global initiatives to promote health care and improve science education and research. The foundation has been a generous supporter of the University of Jena, where Zeiss’ technology was originally developed.

Since then, hundreds of other steward-owned companies have emerged. Some of these companies have adopted foundation-based structures similar to that of Zeiss, while others have opted for different legal frameworks. The most well-known of these companies include the German electronics company Bosch, Danish pharmaceutical company Novo Nordisk, British department store chain John Lewis, and the American internet pioneer Mozilla.
**Key principles**

Steward-ownership structures commit companies to two key principles:

**Profits serve purpose**

For steward-owned companies, profits are a means to an end, not an end in and of themselves. All the profits generated by the company are either reinvested in the business, used to repay investors, shared with stakeholders, or donated to charity.

**Self governance**

For-profit businesses are often beholden to the interests of shareholders who aren’t involved in the operation or management of the business. Steward-ownership structures keep control with the people who are actively engaged in or connected to the business. Voting shares can only be held by stewards, i.e., people in or close the business, and the business itself can never be sold.
These principles are a binding commitment to long-term mission preservation and independence. How they are legally enshrined into a company’s legal DNA varies across organizations, but all steward-ownership models ensure that a company’s steering wheel is passed on to able, talented, and values-aligned successors. Control cannot be bought or inherited. In this sense, steward-ownership represents a third way of allocating power in a company. This alternative power distribution ensures that management decisions reflect the interests of a broader range of stakeholders - not just economic shareholders.

Profits in these organizations are clearly defined as a tool for supporting the company’s mission, not an end in and of themselves. As a result, these structures help to resolve the inherent conflict between profit maximization and mission preservation. Because economic and voting rights are clearly separated, no individual owners, employees, or external stakeholders have a right to profit at the cost of the success of the business. What’s more, no party is personally incentivized to maximize profit at the expense of purpose. This ensures the stewards of a company are able to make the best decisions for the whole organization, not only for themselves or for capital providers. It empowers them to take a long-term perspective on strategy without pressure from quarterly earnings reports or public stock valuations.
Proven benefits of steward-ownership

Steward-ownership keeps the underlying purpose and mission of a company deeply embedded in its operation, and enables generations of stewards to carry on the mission and values of an organization and protect its impact. Steward-owned companies are 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.

- **Mission and values preservation**
  Steward-ownership is a long-term commitment to a company’s mission and values. Although these companies can still raise growth capital, control of the company can never be bought or sold in the traditional sense. Even if a steward-owned company is in a position where it can no longer survive and needs to sell, the proceeds from the sale are locked into the structure and would go to furthering the purpose of the company. Without the pressure from external stakeholders, companies can make decisions that are aligned with both their missions and their long-term business objectives.

- **Long-term orientation**
  Without short-term pressure from financial markets and investors, steward-owned companies can focus on what is best for their organizations, employees, customers, investors, and society at large in the long-term. This leads to more innovation, as companies are able to reinvest more of their earnings into research and development (Thomsen, S. 2017). It also results in an improved longevity and resilience during economic downturns. Steward-owned companies are six times more likely to survive over 40 years than conventional companies (Børsting, C., Kuhn, J., Poulsen T., und Thomsen, S., 2017).

- **Good governance and management**
  Steward-ownership creates a foundation for exceptional governance and management, critical factors for the long-term success of any business. Transitioning to steward-ownership requires a deep exploration of the values, mission, purpose, and goals of an organization. The governance design process forces current owners and stakeholders to identify what the best solutions are for a company in the long-term. The results are governance and management systems that are better and more productive for employees and management, and more successful in fulfilling the purpose of the company.
Steward-ownership is a legally binding commitment to employees, guaranteeing that their work benefits the purpose of the company and not just its financial owners. This creates a psychological basis for deeper motivation. Additionally, workers experience increased job security, better representation in corporate governance, and fairer pay (Thomsen, S. 2017). This results in increased productivity (Kuhn, J and Thomsen, S., 2015) and social cohesion, which enables firms to attract and retain top talent.

Partners and consumers benefit from the improved service of a company in which employees and managers feel connected to and directly responsible for a company’s mission. This leads to long-term customer loyalty.

Kaplan–Meier survival curves

Børsting, Kuhn, Poulson and Thomsen (2016)

Foundation-owned companies are six times more likely to survive over a forty-year period than conventionally owned businesses, as shown in the statistical survey from Denmark (Børsting, C., Kuhn, J., Poulsen T., und Thomsen, S., 2017).

In addition, empirical studies of 300 companies in Denmark show a higher economic performance of profitability and market value of foundation companies compared to privately or dispersedly owned companies. (Thomsen, S. 1996, Thomsen, S. and Rose, C. 2004).
Structuring stewardship
Legal solutions

Steward-ownership can be realized through several structures that instill a company’s mission and independence into its legal DNA. These vary across legal jurisdictions, as well as in their structural complexity and governance philosophies. Some structures, such as the Trust-Partnership model, are uniquely designed to include a broad range of stakeholders in their governance and profit-sharing structures, e.g., employees, vendors, and investors. Other models, such as the Golden Share, can be adapted to accommodate the cultural and governance needs of both small and large organizations.

All of the following ownership models share the same steward-ownership principles of self-governance and profits serving purpose. They ensure that control of a business is passed down from one generation of trusted stewards to the next, and that the company’s mission is protected over the long-term. In this way these models differ from other ownership structures like family-owned businesses, coops, and B corporations. Unlike family-owned business, in which both voting and economic rights are passed on to blood relatives, successors in steward-owned companies are selected based on ability and values-alignment. Coop arrangements, in which each stakeholder is granted one vote, still view the company as a commodity that can be sold for the benefit of its members. Although steward-owned companies can be set up as coops, steward-ownership structures separate economic and voting rights, so no one is incentivized to sell. And unlike B Corps, which commit a company to its purpose, steward-ownership changes the fundamental power structure of a company. Again, steward-owned companies decommify corporate control to ensure long-term independence. As such, steward-ownership goes further than these models to secure a company’s independence, preserve its mission, and separate economic and voting rights.
**Golden Share**

*Jurisdictions:* Known examples in Germany, the Netherlands, Finland, and the United States

*Examples:* Sharetribe (FIN), Zielwear (USA), Creative Action Network (USA), Ecosia (Germany), Waschbär (Germany)

The Golden Share model ensures that the company is stewarded by people who are actively involved or connected to the business. Stewards hold voting rights without any economic rights, and these voting rights cannot be sold or inherited. As in all steward-ownership structures, when stewards leave their roles they must pass their voting rights onto capable successors or return them to the company. This structure is protected by a "golden-share," which has the authority to veto any attempts to unwind the structure or undermine the company’s public commitment.

The Golden Share model ensures that a company’s assets are committed to a purpose and cannot be privatized, and that their governance is in the hands of people who are interested in the company’s mission, rather than merely in profits. In the Golden Share model, there are two to four types of shareholders. The mechanics of these shares vary across legal jurisdictions, but the essential logic remains the same:

- **Voting Rights**
  - A-Shares hold 99% of voting rights of the company, but no dividend rights.

- **Economic Rights**
  - If needed, B-Shares can be issued for investors or founders. These shares hold dividend rights but no economic rights.

- **Golden Share**
  - Golden Share represents 1% of voting rights and the right to veto an attempted sale of the company or any changes to the structure that would undermine the separation of voting rights and dividend rights.
Steward-ownership

Steward-shares

These shares typically represent 99 to 100 percent of the company’s voting rights, without any accompanying dividend rights. These shares cannot be sold on the free market, nor can they automatically be passed on to blood relatives. Instead, steward-shares are passed on to able and aligned successors. Some companies explicitly limit the group of people eligible to receive shares – for example, many companies using a Golden Share model specify that steward-shares can only be held by active employees. Some less common restrictions include other clearly defined groups of stakeholders, or limit share ownership to company management.

How successors are chosen varies across companies. In some companies, such as Bosch (see case study page 52), stewards select their successors, who are then confirmed or vetoed by a workers council; others are guided by a succession board of independent advisors; in some cases, stewards are appointed by the company or an outside actor, typically years before succession.

Non-voting preferred shares

If necessary, a share class may be created with economic rights but no voting rights. These shares may be held by a charitable entity, investors, employees, or founders. Employees and founders can only hold these shares if they are capped in order to avoid a conflict of interest between mission-preservation and profit-maximization. In any case, these shares are ideally issued with capped repurchase rights so that the company can repurchase them in the future.

Golden share

This share class may comprise 1 percent or less of the company’s normal voting power. The Golden Share holds veto rights on all decisions that would effectively undermine the company's commitment to steward-ownership. This veto-share is held by a “veto-service” foundation such as the Purpose Foundation. To be a veto-share provider, a foundation must be self-owned and have clear provisions in its own charter that enable it to use this veto right to protect the provisions of steward-ownership.
While the Golden Share does not normally exercise much control over a company, it can – but does not need to – represent a significant portion of the nominal capital of the company. For example, in Germany a limited liability company (GmbH) must have at least €25,000 of nominal capital. The value of the veto-share can be set at €1, or €24,900; in the latter case, the steward-share would have a nominal value of €100. This makes them easier to transfer to successors. Although financial and tax authorities usually don’t care when non-economic-shares are transferred, they are even less likely to find a taxable base at this low value.

This design guarantees a company’s long-term independence. Changes to this structure can only be made with the approval of the Golden Share, which has the authority to veto any changes that would undermine the separation of control and economic rights or result in the sale of the company. The veto-service foundation does not have a vote in any corporate decisions other than those that would change the company’s constitution regarding its steward-ownership. The Purpose Foundation is obligated by its own constitution to veto any such a change to a company’s constitution. This structure grants companies complete entrepreneurial freedom, while ensuring the principles of steward-ownership are preserved.
**Single Foundation**

**Jurisdictions:** Known examples in European Union, United States, and Central and South America

**Examples:** dm-drogerie markt (Germany), Hempel Foundation (Denmark), Zeiss (Germany)

In a single-foundation ownership structure, a business is majority owned by a self-governing non-profit institution. In some cases, the foundation's board members serve as the company's leaders; in other cases they hold a non-executive board or supervisory board role. Single-foundation institutions often have two boards: one that holds the controlling rights of the company, and one that holds the rights to distribute dividends to charitable causes. The separation of boards ensures there is no conflict of interest between the charitable and operational arms of a business.

While this model is prevalent in Denmark, it is less common in other countries because of tax regulations. Single-foundation models are also widely used in the Netherlands, in part because they can also be set up as so-called "STAK" companies – a sub-form of foundations that are allowed to issue economic certificates. In a STAK, a foundation controls the company, but can grant shares that carry economic rights with limited or no voting rights.

Single-foundation often have two-boards:
1) Corporate Council, which executes the foundation's voting rights.
2) Charitable Board, which is responsible for distributing charitable donations.

![Diagram of single-foundation ownership structure]
Trust Foundation

Jurisdictions: Known examples in Germany and the Netherlands
Examples: Robert Bosch (Germany), Elobau (Germany), Mahle (Germany)

The trust-foundation, or two-entity, model ensures that a company remains independent and that it is governed by people who are invested in its mission, rather than in profits. The model separates voting rights and dividend rights completely by placing them into two separate legal entities: Dividend rights are held by a charitable foundation, while voting rights are kept in a trust or foundation that is managed by stewards. Stewards can be the current leaders of the company, a combination of current leaders, previous leaders, and external independent supervisors (as in the case of Bosch), or exclusively external independent and former leaders (like Mahle or Elobau).

To implement the trust-foundation model, a company needs two separate share classes: steward-shares, with voting rights but no dividend rights; and non-voting preferred shares, which have dividend rights but no voting rights. Two separate entities must be created to hold these share classes.

Because of this clear separation of voting and economic rights, the trust foundation model is particularly effective for decoupling profits from charitable contributions. There is no mechanism in this model for the charitable arm to pressure the company to generate more profits for its charitable purposes.
The governing trust is the main governance entity, and holds the steward-shares with voting rights. It can be an association, a foundation, a trust, an LLP, or some other legal structure. The company's stewards may include the director, employees, or partners of the entity, depending on the entity's governance design. The treaties governing the trust ensure that the stewards can neither sell their shares with voting rights nor pass them on to their children. Instead, these shares can only be held as long as the steward is connected to the company. Different restrictions may apply concerning who can hold these voting shares, and it is typically forbidden to freely sell them.

The foundation, which holds the dividend rights, can be a charitable foundation, a charitable trust, or any other kind of non-profit charitable entity. The foundation receives dividends and can distribute money to charitable causes, ensuring that the company's profits are not privatized or used to maximize shareholder value. In some cases, the foundation does not hold all of the dividend shares – some shares might also be held by private investors, or sold on the stock market. Since these shares do not have voting rights, they have no influence or control over the amount of the dividend that is paid to them; in some cases, however, these dividend shares are entitled to a certain minimum dividend.
Trust Partnership

**Jurisdictions:** United Kingdom  
**Examples:** John Lewis Partnership (UK)

In a trust-partnership, a company is owned by a trust on behalf of a group of partners, most commonly the company's employees. This structure often blends employee democracy with meritocracy. All partners, or a representative group of partners, participate in the operation of the business and share in its profits. Because each partner only receives a small portion of the profits, e.g., a 13-14th of their base salary, the model still prioritizes purpose over profit, and cannot be compared to normal shareholder-owned businesses in which absentee owners collect all the profits. In many cases, for example in the case of John Lewis, the majority voting right owner is a worker-independent trust that appoints the CEO through a meritocratic process, while workers have the right to fire the CEO.

- **Trust**  
  Ex: Employee Ownership Trust
  Trust owns **100%** of the company for the benefit of partners. The company can never be bought or sold.

- **Company**

- **Trustees**
  Profits may be distributed to trustees. Employees (partners) are often represented by democratically elected boards within the company.
Perpetual Purpose Trust

**Jurisdictions:** In the United States, four states have trust laws that meet all the criteria for a Perpetual Purpose Trust as applied to steward-ownership: Delaware, New Hampshire, Wyoming, and Maine. Nevada and South Dakota also permit the concept, but with constraints.

**Examples:** Organically Grown Company (USA), Equity Atlas (USA), Métis Construction (USA)

The Perpetual Purpose Trust (PPT) is a non-charitable trust that is established for the benefit of a purpose rather than a person. Unlike most trusts, which generally last 21 years or end with the death of the grantor, a PPT may operate indefinitely. The PPT structure grants a great deal of flexibility in how Trust Agreements are structured, the purpose of the trust, and how the operating bodies relate to each other. As a result, the PPT makes it possible to include multiple stakeholder groups – like vendors and employees – into the Trust Agreement.

**Company**

**Perpetual Purpose Trust**

Profits are either reinvested, used to pay back investors, shared with stakeholders or donated to charity.

**Trust Protector Committee**

The Trust Protector Committee leads the trust. The committee may be comprised of employees, stakeholders, or other groups designated in the trust agreement.
Conclusion

The steward-ownership forms described here vary greatly in their legal and structural complexity. Some are very simple and cost-effective to implement, such as the Golden Share model, while others, like the Trust-Foundation model, offer advantages to larger companies but require forming and maintaining new legal entities. Picking the “right” steward-ownership form depends on the needs, culture, and maturity of a company. The cases presented in this book (Pages 41-99) offer examples of companies that have implemented these structures, and further illuminate the advantages and disadvantages of each depending on a company’s needs.
Stewardship & investment
Innovating finance for social enterprises

Aner Ben-Ami

The social enterprise community is revered as an innovative ecosystem of investors and entrepreneurs, with business models as diverse as the challenges they address, from poverty in the global south to recidivism and urban farming in the United States.

How are these businesses funded?

Oddly enough, the vast majority of social enterprises raise capital using the standard equity or convertible note term sheets designed to support fast-growing tech start-ups. But if a company is building a water distribution system in Kenya or a local food hub in North Carolina, why would it be funded using the same investment terms used to fund Snapchat, Instagram, or Uber? When was the last time an artisan sourcing project went public, or got acquired by Google?

At Candide Group, we seek to invest in companies and funds that offer systemic solutions to social justice and sustainability issues. We believe that the economic model and the investment tools utilized are inseparable parts of any approach to systemic change. Simply applying the same old models to companies that are distributing organic products, assembling fairly-sourced consumer electronics, or building consumer brands committed to ethical supply chains isn’t sufficient. 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.

We need to redefine terms to better fit the unique attributes of social enterprises. Whether it be longer timelines, unconventional exits, or broader community participation, how we finance businesses today has an enormous effect on their potential impact over the long-term.

Standard term sheets: What’s broken?

Models for early-stage equity investments assume a high failure rate: As a rule of thumb, angel investors and venture capitalists expect roughly 15 percent of the companies to generate 85 percent of their returns. According to this model, at least half of a portfolio will return less than the capital originally invested. That’s why early-stage investors look for returns — as those “home runs” have to make up for all the failed investments. This means that early stage venture/angel investors should only invest in companies that have the potential to become big winners. This is how the venture capital works — go big or go home. But is that model the best one for (most) founders? How about for society as a whole?

By looking at the world through a venture capital lens, we do three things that are often bad for founders, workers, communities, and the planet:

- We overlook companies that could become good, sustainable businesses, but aren’t likely to generate the outsized returns the venture funds are seeking.
- We make companies more likely to fail by pushing them to take on excessive risk in pursuit of moonshots.
- We push companies to “exit”, whether or not that’s in keeping with their founding vision and mission.

As the research in this book shows, we need alternative ownership and financing structures that:

1. are flexible enough to meet the needs of very different kinds of businesses (more/less “venture style”)
2. enable companies to remain committed to their founding missions, rather than forcing them to sacrifice or dilute their missions to satisfy the needs of investors (growth, exit etc.).
Alternative approaches: What do we do instead?

To counter this "one size fits all" approach, a growing group of investors and entrepreneurs is working to develop and apply deal structures that support the growth trajectory of sustainable businesses, provide realistic returns for investors, and enable businesses to keep their missions front and center.

We say that these alternatives have "structured exits." In these deals, the path to liquidity is explicitly structured into the deal terms, as opposed to being reliant on an as-yet-unidentified acquisition or an IPO.

The overarching premise and intent of these structures can be summed up as follows: If an investment can realistically support a business to a point where it is profitable enough to pay investors back, and it is agreed that a traditional exit is unlikely or undesirable, we should be able to come up with a structure that offers liquidity to investors and sustainability for the business itself.

The examples of how this gets implemented are varied and evolving.

• In some cases, investments are still structured as equity investments, but redemption plans are more explicitly defined. The company could pledge to buy shares back every year using some percentage of its profits or revenues, or — if this is not feasible — the company might buy shares back through a refinancing at the end of the life of the investment (e.g. a “put” option investors can utilize after 7 years).

• In other cases, investments are structured as revenue- or profit-based loans. For instance, investors could receive 3 percent of revenues until they’ve been paid a total of 3x their initial investment. The faster the company grows, the faster the investors earn their full returns (and vice versa).

We’re seeing a groundswell of interest from founders who are increasingly aware that the venture capital "treadmill" might not be the right fit for them. We have some catching up to do on the investor side to develop the right tools and solutions for these founders, but we are excited to continue working on these alternative solutions with pioneers like Purpose!

Aner Ben-Ami is an impact investor and founder of the Candide Group in Oakland, CA that advises and supports family offices on impact investment.
Alternative financing instruments

Like all companies, steward-owned companies reach stages in their development where they require investment capital to grow and develop their business. When a steward-owned company, or a company interested in transitioning to steward-ownership, reaches this point, its founders often find that the finance world is ill-equipped to cater to its needs.

First, let us consider the start-up context: the venture capital ecosystem and its financing tools are not designed to sustainably finance mission-driven companies. The whole start-up funding system is based on injecting large amounts of capital to grow a business so that it can be sold in a profitable exit or IPO.

Due to the high failure rate of startups, these instruments are designed to produce returns of at least 10x and more from successful investments. In addition, the term-sheets used for those investments often give investors far-reaching minority rights. One example is the “drag-along” right. Drag-along rights give investors who are interested in selling an investment the right to force the other owners, including the founders, to join the deal. Obviously, this can undermine the social or environmental mission of the underlying company, but that’s a secondary concern to the investor – and the financial objectives of investors are given more weight than the purpose of the company itself.

For companies seeking to prioritize long-term sustainability and multi-stakeholder engagement, these capital structures are often outright incompatible.

Mature companies face a similar challenge. Without access to long-term, patient capital, these businesses are often forced to sell to private equity firms or go public in order to provide investors, founders, and employees with liquidity. Private equity firms make money by cutting costs, maximizing profits, and ultimately reselling companies to other firms, where the cycle continues. It is very difficult for any business to stay committed to its values and mission in this model. And companies face similar challenges on the public market, where quarterly earnings reports, speculative investors, and activist shareholders demand businesses prioritize short-term earnings over long-term mission and strategy. Going public and selling all but guarantees a company is forced to prioritize shareholder value over its mission and the interests of its other stakeholders.
To sum up, conventional financing tools rarely work for social enterprises or steward-owned companies, because:

- Excessive return expectations lead to unrealistic growth trajectories, and leave viable businesses (that cannot become "unicorns") without funding;

- Equity financing with preferred shares is often designed so that investors gain as much control over a business as possible; and

- Selling shares to private equity investors or on the public market strips businesses of their independence and forces them to prioritize shareholder value over mission.

These financing tools contradict the principles of steward-ownership, compromising business’ independence and any mission-oriented perspective on profits.

The problem is further compounded by the fact that even impact investors are likely to seek similar terms when funding social enterprises. While impact investors often share a social outcomes goal with founders, they frequently fail to realize the implications of those goals for a company’s financing structure. That is why we often see impact investors seeking similar returns on similar terms and timelines as venture capital and private equity investors.

Fortunately, there are viable alternatives to conventional financing, and a growing community of investors and entrepreneurs who are leveraging them to support steady growth and balance the impact of their business with returns to investors. We will take a detailed look at the different options available for financing existing and prospective steward-owned companies.
Non-voting Redeemable Preferred Equity

Like traditional equity, non-voting equity represents financial ownership of the company. Redeemable shares can – and sometimes must – be repurchased by the company at a predetermined valuation, either gradually or at a fixed maturity date. The redemption value and date are clearly defined in the shareholder agreement. Redemptions can be paid from different liquidity sources, including cash, successive equity rounds, or debt.

For steward-owned companies, these shares are created without voting rights. In lieu of voting rights, investors normally require protective provisions to ensure they have some recourse in emergency situations, e.g., a CEO defrauding a company.

Unlike revenue-based financing models, non-voting redeemable preferred equity keeps money inside of companies during their crucial early years of growth. Redeemable preferred equity also has the advantage of capping redemption valuation at a certain multiple of the original purchase price, preventing shares from becoming too expensive to buy back once a company has achieved profitability. For an investor, a redeemable share has the advantage that repayment is relatively secure and predictable assuming the company remains solvent.

Company profile

Non-voting redeemable preferred equity works well for steward-companies that want to raise substantial amounts of capital ($1M+) over multiple rounds while maintaining control over decision-making. Ideally, the company has a pathway for revenue growth that allows it to meet the mounting repayment obligations. This tool is one of the most generally applicable and has been used in cases ranging from venture-backed startups to mature companies going through a recapitalization process. For later stage companies, non-voting redeemable preferred equity will often include a “base” dividend to provide a secure ongoing income source for investors.

Variables

- Conditions under which investors or the company can call for share redemptions
- Base or guaranteed dividend rate
- Protective provisions for investors

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Downsides</th>
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<tbody>
<tr>
<td>Similar to conventional equity, familiar to investors</td>
<td>Requires careful balance between capital raised and growth expectations</td>
</tr>
<tr>
<td>Clear path to liquidity for investors and founders</td>
<td>Requires careful business planning to make sure redemptions are feasible</td>
</tr>
<tr>
<td>Sets a clear anchor price, path, and structure for future capital raises</td>
<td>Difficult to raise multiple rounds if growth has been slower than projected</td>
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Equity-like debt

Subordinated loans are unsecured loans subordinate to other debt, and therefore can act like equity on a company’s balance sheet. An investment is paid to the company as a loan, and repaid over a pre-defined term; the interest rate can be either fixed or variable, tied to inter-bank lending rates or the company’s performance. There are many possibilities for structuring the terms – for example, they might specify that interest is only paid until a predetermined multiple of the principal has been returned. Subordinate loans work well for investors, who are often happy to assume equity-like risk but prefer the simplicity and flexibility of a debt agreement. Companies taking on subordinate loans have to be comfortable treating loan repayments as a cost, rather than distributing net profits as they would have had they issued equity. The advantage of treating interest payments as costs is that it lowers a company’s taxable income.

This type of security, which is common in Germany, is a mezzanine capital instrument that acts like equity but without the control. It is a non-trading partnership (in German a “GbR”, short for “Gesellschaft bürgerlichen Rechts”) between an investor and a company. The investor participates directly in the profits and losses of the company, with these profits or losses becoming effective for tax purposes as they occur. Atypical silent participation works well in Germany, in part because the losses investors incur before a company achieves profitability immediately reduce their tax liabilities. It is also much easier to implement than an actual equity investment; it does not require notarization, yet it works just like equity from a financial perspective. Atypical silent participation does not need to entail voting rights, but it can include certain red lines (or “zustimmungspflichtigen Punkte”).
Demand dividend

A demand dividend is a preferred equity share that requires a company to make periodic payments to investors based on a percentage of its available cash flow, usually until the investors have achieved some predetermined return – i.e., the "total obligation". For example, Company A raises $250,000, and in return pays out 5 percent of its "free cash flow" until investors have received a total of $500,000 in distributions, or a 2x return on their initial investments. The repayment typically starts after a "holiday" or "honeymoon" period.

Company profile

Demand dividend returns work well for companies interested in keeping their voting rights and that do not want to exit or go public, and therefore need to provide investors with liquidity from their own cash flows or other growth capital. They are best suited for companies beyond the proof-of-concept stage with relatively healthy growth projections and a reasonable line of sight to stable revenues. They are less well suited for early-stage companies that are far from achieving positive cash flow and those that still rely on continuously reinvesting their profits.

Variables

- “Total obligation”
- Definition of demand dividend (e.g. % of EBITDA, other free cash flow formula)
- Holiday period

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Downsides</th>
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<tbody>
<tr>
<td>True equity on books</td>
<td>Free cash flow formulas can be complex to architect and negotiate.</td>
</tr>
<tr>
<td>Capped return - the company knows its true obligation to investors</td>
<td>Can be seen as an additional risk for follow-on equity investors</td>
</tr>
<tr>
<td>Holiday period enables a company to grow without the burden of payment obligations</td>
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Steward-ownership
Revenue/royalty share

Under a revenue/royalty share loan, operating revenue is shared with investors to repay investments. In a revenue share, investors and entrepreneurs are both interested in the company’s ability to create sustainable revenue. Investors are repaid incrementally as the company generates more sales, typically receiving a predetermined return on their investments.

Revenue shares are easy to implement and monitor because revenue is an easily measured, uncontroversial metric of performance. Entrepreneurs benefit from a flexible payment structure, as payments to investors are directly proportional to company performance. If the company’s revenue grows quickly, investors are repaid over a shorter period of time; if growth is slow, investors achieve their returns over a longer timeframe. Investors also benefit from the security of having direct access to revenue regardless of the company’s other financial metrics. The model is less well suited for companies in sectors with high scaling costs, as they may end up having to repay investors even as they are still making significant losses.

> **Company profile**  
Revenue/royalty instruments work well for companies that are already profitable or have a clear path to profitability.

> **Variables**

- Total obligation
- Proportion of sales or revenue accessible to investors

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Downsides</th>
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<tbody>
<tr>
<td>Easy to implement and measure</td>
<td>Can be seen as an additional risk for follow-on investors and debt providers</td>
</tr>
<tr>
<td>Flexible payment structures for entrepreneurs</td>
<td>Can put a company in a difficult position if costs remain high when royalty payments activate</td>
</tr>
<tr>
<td>Secure for investors</td>
<td></td>
</tr>
<tr>
<td>Well-known structure</td>
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Securing liquidity for investors and founders

All investors need a straightforward way to get liquidity from their investments. For early-stage investors, liquidity typically is provided through external acquisition of the company or an IPO. Because steward-owned companies do not aim for an exit, however – at least not in the traditional sense – they need alternative ways of providing investors with liquidity. Fortunately, there are several well-proven alternatives.

Cash share buybacks

The simplest and most direct way to provide liquidity for investors is from the cash generated by the company. If a company has sufficient cash reserves after a period of growth and/or saving, buybacks can be arranged with investors based on a valuation of the company or a pre-agreed buyback price or formula. To ensure buybacks do not occur solely at the discretion of the company, investors in steward-ownership start-ups usually get a put-option, or a “redemption right”, which forces the company to use a certain percentage of free cash flow for buybacks that are valued at a predetermined price.

Leveraged buy-out

A common way to recapitalize a more mature company is to buy out earlier investors with debt, in combination with subordinated debt or preferred non-voting equity that the company issues. This works well if the company has positive cash flows or hard assets and can secure a loan with a reasonable interest rate. Debt providers often require covenants and/or liens on assets to secure their investments. Preferred equity providers might want a minimum dividend that is paid annually with a defined upside, since they don’t control the company or its decisions regarding dividend payouts.

Equity raise

A startup company may want to provide investors with some liquidity through partial share buybacks as it grows and raises larger and larger rounds of equity. This relieves the return pressure for early investors, while ideally securing the company cheaper capital for continued growth.

Dividends

Some investors are willing to accept a long-term share of dividend distributions in lieu of liquidating shares. The conditions under which dividends are distributed must be agreed upon beforehand, as investors typically do not hold board seats or have controlling votes in steward-owned companies. This can take the form of a “base” or “guaranteed” dividend triggered by a milestone or a performance metric built into the dividend agreement.
Non-voting or low-voting IPO

Steward-owned companies do not allow the sale of their majority voting interests. This does not, however, preclude a company from offering shares on the public market. Indeed, roughly 70 percent of the value of the Danish stock market value is derived from steward-owned companies. These and other mainstream companies have opted to offer either strictly limited and minority controlling interests or non-voting economic shares on the public market. The latter is the preferred method for steward-owned companies, as it enables investors to capture gains from valuation increases without compromising the control of the company.

Sale to another steward-owned company

In some cases, a steward-owned company may take over another if they share a common purpose and operating philosophy. In these cases, the new parent company may take on additional capital, or use cash reserves to provide liquidity to investors and founders of the company that is being acquired. Unlike a traditional exit, this transaction does not undermine the mission of the company. In some cases a larger steward-owned company may simply be the best next steward for a steward-owned start-up.

Conclusion

All of these instruments enable steward-owned companies and companies transitioning to steward-ownership to provide investors with liquidity. These instruments do not threaten the independence of a steward-owned company, nor do they compromise a company’s commitment to mission-preservation. Unlike the financing instruments conventionally leveraged to provide liquidity, many of these tools require longer investment periods. Luckily, a growing number of investors understand the importance of patient capital to ensuring a company’s mission and impact over the long-term.

Disclaimer

This is not financial or legal advice. Rather, the above is based on practical analysis gathered from our research into investments in steward-owned companies.
Stories of stewardship
The following case studies explore the stories of founders and owners who have implemented steward-ownership. Although their business models, industries, and ownership structures vary, these companies share a common commitment to the principles of steward-ownership: Their profits serve their purpose, and they are self-governed by stewards.

We begin with three historical examples of steward-owned companies: Zeiss, Bosch, and John Lewis Partnership. In the case of Zeiss, we explore how a single-foundation model has ensured the long-term success, independence, and commitment to social responsibility of both Carl Zeiss AG and Schott AG. Our study on the Bosch demonstrates how its trust-foundation structure has protected the innovative strength and social commitment of founder Robert Bosch. And in the case of John Lewis Partnership’s trust-partnership, we look at how its democratic trust-partnership model includes 90,000 employees in its corporate governance structure.

Turning towards newer companies, we look at three startups in Finland, the US, and Germany that have recently transitioned to the Golden Share model. Sharetribe, Ziel and Ecosia highlight options for young entrepreneurs looking for alternatives to the traditional venture capital “unicorn” path. These mission-driven companies demonstrate the importance of governance early on in a business’ biography.

Finally, we explore three mid-sized businesses that have chosen steward-ownership as an alternative to traditional exits and family succession. In the case of Waschbär, we look at how its Golden Share model protects its mission to help people live and act in an environmentally sustainable way in their everyday lives. Our case study on Organically Grown Company tells the story of a 40-year-old leader in sustainable and organic agriculture; its transition to a multi-stakeholder Perpetual Purpose Trust reflects the company’s deep commitment to supporting organic agriculture. Finally, we look at Elobau, a German family-owned business that elected steward-ownership over traditional family succession.

Between the start-up and mid-sized company case studies, we hear from Juho Makkonen, co-founder of Sharetribe, and Ernst Schutz, former owner of Waschbär. Juho explores the challenges young entrepreneurs face in a system designed to grow and support startups like Airbnb, Etsy, and Lyft, and explains the role of ownership in creating a mission-driven business. Ernst presents steward-ownership as an ownership solution to mid-sized family businesses facing the question of succession.

Together these case studies demonstrate the impact steward-ownership can have on a company’s culture, growth, and capacity for innovation. They highlight the myriad of ways steward-ownership can be structured depending on the needs, capacity, and maturity of a business, and explore ownership as a solution to some of the most pressing challenges facing business leaders today.
Historical
Promoting research and innovation

The Carl Zeiss Foundation is the sole stockholder of Carl Zeiss AG and Schott AG. This single-foundation model has ensured both organizations' long-term success, their independence, and their commitment to social responsibility.

Carl Zeiss AG and Schott AG are leaders in developing, producing, and selling high-quality products in the field of optics, precision engineering, electronics, and precision glass technology. In 2016 the companies employed over 40,000 people in 35 countries, and reported €7 billion in revenue. Since its foundation in 1889 by Ernst Abbe, one of Carl Zeiss' fellow researchers, the Carl Zeiss Foundation has changed the way we see the world through its innovations in microscopes and camera lens, optical glass, optoelectronics, and glass ceramics.

Ernst Abbe developed the mathematical foundation behind Zeiss' successes while teaching physics at the University of Jena. It was most likely there – at a public university, where he benefited from the support and research of other academics – that Abbe concluded that his successes did not belong to him alone. He felt that his achievements were shared by a broader community of scientists, researchers, and visionaries, both past and present, and instilled this value of shared ownership in the structure of Zeiss and Schott.

After Carl Zeiss, the founder of Carl Zeiss AG, died in 1888, Abbe created the Carl Zeiss Foundation, which has owned the company ever since, later acquiring Schott AG as well. The foundation's constitution prohibits the sale of shares, whether to the general public or to another firm. The shares will therefore never be listed on any stock exchange.

The Zeiss single-foundation structure ensures that the two firms' profits are either reinvested or donated to science and mathematics education and research. It has enabled both firms to stay true to their original purposes and their mission of technological innovation, corporate responsibility, and the importance of fair treatment of their employees. The foundation is responsible for the economic security of both firms and their social responsibility to their employees, and works to advance the interests of precision industries, support research and instruction in the natural and mathematical sciences, and provide community facilities for the working people of Jena.
Single-Foundation ownership

The Carl Zeiss Foundation consists of three governing bodies that share power and responsibility:

1. **Foundation administration**
   - Appoints members of the foundation council.
   - Determines how subsidies for research and education are allocated.
   - Responsible for any changes to the foundation’s constitution.

2. **Foundation council**
   - Represents the foundation’s economic interests as the sole shareholder of both Carl Zeiss AG and Schott AG.
   - Represents the foundation’s voting rights at the annual general meetings of the companies.
   - Selects supervisory boards of each company.
   - Unites the foundation and both companies.

The foundation administration is responsible for appointing members of the foundation council. They determine how subsidies for research and education are to be allocated, and are responsible for any changes to the foundation’s constitution.

The foundation council is responsible for attending to the foundation’s economic interests as the sole shareholder of both Carl Zeiss AG and Schott AG. The council also represents the voting rights of the foundation, in particular at the annual general meetings of the companies. The council elects the supervisory boards of each company. The chairman of the foundation council also serves as the chairman of the supervisory board of both companies, which unites the foundation and both companies.
The management advisory board consults on the selection of foundation council members, the allocation of subsidies, and changes to the foundation’s constitution.

Within the two organizations, the interests of the foundation and those of the employees of Carl Zeiss AG and Schott AG are equally represented on the supervisory board, which is responsible for electing the executive board of each firm.

This structure gives the foundation indirect influence over the management and operation of the businesses without creating a conflict of interest between the business and the charity.
Through both its investments in research and development at Zeiss AG and Schott AG and its philanthropic giving, the Carl Zeiss Foundation has continued the scientific legacies of founders Zeiss and Abbe. Because of the foundation structure, both firms have been able to invest in long-term growth strategies and innovation. Today the firm’s product offerings range from semiconductor manufacturing to medical technology microscopy, industrial metrology to consumer optics.

Through its charitable donations, the foundation also supports local and global initiatives to promote health care and improve science education and research. The foundation has been a generous supporter of the University of Jena, where Zeiss' technology was originally developed: Initiated and funded by Zeiss, the Zeiss Research Award has honored outstanding achievements in optical research across the world every two years since 1990. Many award winners have subsequently received other distinguished awards, with four of them going on to win the Nobel Prize.

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<tr>
<th>Founded</th>
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<tr>
<td>Revenue 2016</td>
<td>€7 billion</td>
</tr>
<tr>
<td>Employees 2016</td>
<td>40,000</td>
</tr>
<tr>
<td>Global Reach</td>
<td>35 countries</td>
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“…the possessions I currently have and the earnings that I can expect in the future on the basis of existing assets have essentially come because it was possible for me and my comrades to have others work in our service and for us to unrestrictedly use them for profit. The current legal system also unconditionally declares that wealth is the private ownership of a successful businessman. It’s my personal conviction, however, that an acquisition of such origin should be viewed against a concept of property, which satisfies a more stringent concept of morality, and should be treated as a ‘public good’ insofar as it goes beyond the measure of a reasonable wage for personal activity.”

Ernst Abbe
Entrepreneur, industrialist, and philanthropist Robert Bosch started planning for the long-term ownership of his company decades before his death in 1942. Since 1964, the Bosch Group has been held under a trust-foundation structure that has maintained the innovative strength and social commitment of its creator.

The Bosch Group is one of the leading technology and service companies in Germany. In 2017 it employed over 402,000 people and reported €78 billion in revenue and roughly €4 billion in profit. The group has expanded globally since its founding in 1886 in Stuttgart by Robert Bosch, and now has around 400 subsidiaries and regional companies in approximately 60 countries. These organizations produce a variety of products, from home appliances, power tools, and automotive parts to industrial equipment for commercial buildings and airports to medical equipment, railways, and trains. Bosch products can be found in almost every car, smart device, and home around the world.

Robert Bosch led and owned the company until his death in 1942. He began laying the groundwork for the future governance structure of the Bosch Group prior to his death, and experimented with different forms of ownership. For example, he tried selling shares to Bosch’s managers only to determine that doing so changed their behavior: they started concentrating more on the financial ratios than on the overall well-being of the business. On his 80th birthday announced his wishes for the future of his company: “I ask you to share this spirit of dedication to our common cause [...] and to continue in this spirit, for the sake of each and every associate, and for the sake of the company that, as my life’s work, is so close to my heart.”

In his will, Bosch outlined three possible future ownership structures for the company, and endowed a group of executors with the power to restructure it if and when the necessity arose. Ultimately, the executors decided that the trust-foundation model outlined in Bosch’s will was the best solution to ensure the long-term success of the company and fulfill his wishes.

Under this trust-foundation structure separates voting and economic rights into two share classes: 92 percent of the economic rights of the Bosch Group (B-Shares) lie in a charitable organization, the Robert Bosch Foundation. The Bosch family received 8% of the company’s dividend shares, which they still hold today. All the shares they previously held beyond the 8 percent threshold were bought by the Bosch Foundation at their market rate. 93 percent of the shares with voting rights (A-Shares) are held by ten steward-owners. These shares cannot be sold or inherited. Instead they are passed from one generation of stewards to the next. 7 percent of the voting rights remain with the family.

Bosch’s steward-owners, and those who followed, are responsible for the company’s continued success and its adherence to its mission. This structure has secured the company’s lasting entrepreneurial freedom, while maintaining its links to the Bosch family and using its dividends to support charitable and social causes.
Bosch’s trust-foundation structure ensures that the company is stewarded by the people who feel most connected and committed to the company’s mission and culture. The structure separates voting and dividend rights, removing any incentive to maximize profit over the company’s long-term success, employee conditions, or environmental impact.

**Trust-foundation structure: long-term steward-ownership**

Robert Bosch Charitable Foundation

- 92% dividend rights, no voting rights.
- Dividends are donated.

Robert Bosch Industrietreuhand KG

- 93% voting rights.
- KG owners each remain stewards for 5 years.

Bosch Family

- 8% dividend rights
- 7% voting rights
Since 1964, the Robert Bosch Gmbh (equivalent to a private limited company) has had three shareholders:

- **Bosch family**
  Robert Bosch’s heirs hold 7 percent of voting rights and 8 percent of dividend rights.

- **Robert Bosch Foundation (Stiftung)**
  The Bosch charitable foundation, which donates to causes that were particularly important to Robert Bosch, holds 92% of dividend rights but no voting rights.

- **Robert Bosch Industrietreuhand KG**
  Comparable to a limited liability partnership, the KG owns 93% of voting rights and no dividend rights. There are ten steward-owners of the Industrietreuhand KG who serve for limited periods. These positions cannot be sold or inherited. This trust-foundation structure permanently protects Robert Bosch’s entrepreneurial and innovative humanist mission, and ensures the company will never be sold to external investors. According to the structure, the Robert Bosch Foundation receives dividends when the Industrietreuhand KG (IK) decides to distribute them. The foundation and IK may block each other from selling shares, with or without voting rights, to outsiders. And the Bosch family has no significant influence over the operation of the business. This ensures the steward-ownership structure is protected for the long-term, and that no one will ever be able to buy the company.

  The IK, the majority voting rights holder, controls the company through ten trustee shareholders. Four of these shareholders are current or former Bosch executives, and six are external business professionals who are familiar with the business but bring an outside perspective. This group currently includes the former head of UBS Bank, the CEO of BASF, and other highly experienced individuals. Two of these ten shareholders are managing partners. Each shareholder holds one vote, and they are mandated to make decisions unanimously whenever possible. If one of the shareholders turns 72 while serving, he or she is required to retire, to be replaced with a new shareholder elected by the remaining shareholders. Shareholders are always appointed for five-year terms, and have to be reappointed by the other shareholders after that. The IK controls Bosch both directly and indirectly through its selection of supervisory board members and board members. The IK also play a role in selecting the company’s CEO, although that appointment must be officially confirmed by a vote of the supervisory board. Because of Germany’s co-determination law (or *Mitbestimmung*), half of the 20 members of the supervisory board are elected representatives of Bosch employees.
History of innovation

Bosch’s trust-foundation structure has helped it become an international leader in industrial and technological innovation. Thanks to its ownership structure, which is designed to serve the company’s long-term interests rather than short-term investor goals, the company has been able to invest heavily in research and development without the pressure of quarterly reports or stock-market valuations. For example, Bosch invested heavily in green technologies decades before they became a trend. Although these investments significantly lowered the company’s profitability in the short-term, they have given it a market advantage in the long-term. As former Bosch CEO Frant Fehrenbach explained, “As a shareholder-owned public company, we could not have invested so intensely.” The trust-foundation has given Bosch the competitive advantage of patience in its strategic decision-making.

A legacy of philanthropy

Today the Bosch Stiftung supports 800 different projects across five key domains around the world. Although its statutes state that the foundation’s main purpose is to support public health care, the foundation’s philanthropic profile has evolved over time, as was Robert Bosch’s intention. Other purposes include international understanding, welfare, education, the arts and culture, and research and teaching in the humanities, social sciences, and natural sciences. These activities reinforce Bosch’s reputation as a good corporate citizen, which benefits the company in its branding, recruitment, and employee retention.

Bosch in figures

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1886</td>
<td>Founded</td>
</tr>
<tr>
<td>€78 billion</td>
<td>Revenue 2017</td>
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<tr>
<td>€4 billion</td>
<td>Profit 2017</td>
</tr>
<tr>
<td>402,000</td>
<td>Employees 2017</td>
</tr>
<tr>
<td>60 countries</td>
<td>Global Reach</td>
</tr>
<tr>
<td>€100.5 billion</td>
<td>Charitable Giving</td>
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</tbody>
</table>
“It is my intention, apart from the alleviation of all kinds of hardship, to promote the moral, physical and intellectual development of the people.”

Robert Bosch
1921
The John Lewis Partnership’s trust-partnership is a model of democratic stewardship-ownership that includes 90,000 employees in its corporate governance structure. Through a sophisticated set of checks and balances, the trust-partnership ensures that the trust’s purpose and independence are secure for the long-term.

The John Lewis Partnership (JLP) is a major retail organization based in the United Kingdom that operates John Lewis department stores, Waitrose supermarkets, banking and financing services, and other retail-related activities. With over 90,000 employees and £11 billion in annual sales, the employee-owned trust has thrived for almost 60 years.

Spedan Lewis, the son of John Lewis, introduced the first profit-sharing schemes to his organization in 1920 after a car accident gave him time to reflect on the future of the business, working conditions, and the mission of the company. It was during this period that he learned that his father and brother annually earned the equivalent of the entire workforce of two of their company’s shops. Lewis was convinced that “the present state of affairs is a perversion of the proper workings of capitalism,” and that “the dividends paid to some shareholders” for doing nothing were obscene when “workers earn hardly more than a bare living.” He set out to improve working conditions, offering shorter work days, setting up a staff committee, and providing more paid leave. In 1929 he established the Trust and Partnership, which allowed him to retain practical control of the business while distributing its profits among employees. In 1959 he signed over the last remaining shares to the trust, and the partnership became the property of John Lewis’ employees.

This trust-partnership structure has enabled the company to stay independent, principle-led, and dedicated to its commitment to foster the happiness of its employees.
Trust-partnership structure: democratic governance

JLP is owned by a trust on behalf of all of its employees, or “partners.” The trust holds the shares for the benefit of the company’s employees. The trustee is the John Lewis Partnership Trust Limited. John Lewis also practices a blend of employee democracy and meritocracy: All partners have a say in how the company is run, and have a right to its profits. The ownership structure can only be changed by the worker-elected partnership council in agreement with the chairman.

The governance system of JLP is a sophisticated set of check and balances, with power shared between three governing authorities:

- **Partnership Trustee**: JLP Trust Ltd holds, as the trustee of JLP Trust, all shares with voting rights and profits rights of the JLP PLC for the benefit of the Partners.
- **Share Structure**: Chairperson is the owner of all 40 A-Shares. B-Share owners are the trustees selected by Partnership Council. B-Shares only have voting rights in the event of a liquidation and approval of the other directors or when Chairperson leaves without an appointed successor.
- **Double-Chairman**: Serve as Chairperson and Owner of the Trustee of JLP Trust Ltd and the Executive Chairperson of the Board of JLP PLC. Chairman and Deputy are automatically Partnership Board members.

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**Case study**

**Historical**

**John Lewis Partnerships Trust Ltd**

- Elects “Trustees of the Constitution” automatically B-Shareholder and Directors at JLP Trust Ltd

**Double-Chairman**

- Appoints 5 members
- Member

**Partnership Board**

- Elects

**Partnership Council**

- Elect

**John Lewis Partnerships PLC**

- Appoints

**Partners Counsellor**

- Appoints
The partners (employees) together comprise a worker-democracy. In accordance with the company constitution, the partners elect a Partnership Council, which can, in turn, elect persons to the company’s Board of Directors.

The chairman of the JLP is appointed by the previous chairman. They are simultaneously the chairman of JPL PLC and the JLP Trust Ltd, and must be operationally active. The chairman holds the sole voting right of the JLP Trust Ltd (A-Shares), and, as such, has a great deal of discretionary power. They can only be dismissed by a qualified majority of the Partnership Council. The chairman’s role and powers bring a meritocratic element into the organization.

The Partnership Board is in part appointed by the chairman, and in part elected by the Partnership Council. It is responsible for vital business decisions, including how financial resources are invested, how profits are distributed, and the salary of the chairman.

The Partnership Council comprises 82 representatives, 80 percent of whom are elected by the partners; the remaining representatives are appointed by the chairman. The council has the power to discuss ‘any matter whatsoever,’ and is responsible for the non-commercial aspects of the business. The Partnership Council can change the governance structure of the organization with the agreement of the chairman.
“After all, as a Partnership, we are a democracy – open, fair, and transparent. Our profits are shared, our Partners have a voice, and there is a true sense of pride in belonging to something so unique and highly regarded.”

John Lewis
People as purpose

As partners, JLP employees share in both the responsibility of ownership and its rewards, including profits, knowledge, and power. In this structure, partners are able to express their views about the business, its mission, and its practices through formal democratic bodies like the Partnership Board and Council, as well as through the company’s weekly magazine, the Gazette. Partners get final-salary pensions and perks, ranging from holiday homes to memberships in sailing clubs.

This unique ownership structure has helped JLP grow into one of the UK’s largest retailers, one with a loyal, committed employee base that delivers exceptional customer service. This exceptional level of service continues to be JLP’s competitive strength.

John Lewis Partnership in figures

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<thead>
<tr>
<th></th>
<th>1926</th>
<th>Founded</th>
</tr>
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<tbody>
<tr>
<td>Sales 2015</td>
<td>£11 billion</td>
<td></td>
</tr>
<tr>
<td>Profit 2015</td>
<td>€400 million</td>
<td></td>
</tr>
<tr>
<td>Employees 2016</td>
<td>88,900</td>
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Historical

Photo source: John Lewis Foundation
Start-ups
How to build companies that are a force for social good

Juho Makkonen, Sharetribe

Why being “mission-driven” is not enough

Many modern technology companies are founded by young and idealistic teams that want to make the world a better place. Their business ideas are born from a genuine desire to fix societal problems. Ideally, they would be able to perfectly align their purposes and profits, and every dollar they generated would be used to advance their missions. A company that produces solar panels or an app that helped consumers buy food that would otherwise go to waste could have an enormous positive impact, all while building a great business.

On the surface this sounds like a simple equation: As a business scales, so should its positive impact. Unfortunately, the world is more complicated. Once these companies grow, they quite often encounter situations where their purpose and profits are in conflict. In a publicly traded company or a privately held one that has sold more than 50 percent of its equity to venture capitalists, the company’s management is typically mandated by its corporate charter, shareholders, and investors to prioritize profits and growth over its social mission when the two come into conflict.

Let’s look at an example from my industry - the sharing economy and peer-to-peer marketplaces - to illustrate the problem: Etsy.

Etsy: a tale of mission drift

Etsy was born as a reaction to a world of mass-produced consumer goods, best represented by Amazon. Its mission was to “make commerce human” by getting more people to buy hand-crafted goods while providing an income to micro-entrepreneur crafters. In 2012 Etsy obtained a B Corp certificate, which obliged the company to submit annual proof that it was meeting rigorous standards of social and environmental performance, accountability, and transparency. In a speech to his employees announcing the B Corp Certificate, Etsy CEO Chad Dickerson proclaimed, “The success of our business model is based on the success of our sellers. That means we don’t have to make a choice between people and profit.” Like so many tech companies, Etsy had raised a lot of venture capital to accelerate its growth. Eventually, those venture capitalists wanted liquidity for their investments, and on April 16, 2015, Etsy became a publicly traded company. Three years later, the company has lost key leadership figures, dismantled its “Values-Aligned Business” team, which oversaw the company’s social and environmental efforts, and allowed its B Corp certificate to expire. Even before going public, Etsy had started allowing the sale of mass manufactured goods on its platform - a decision that was diametrically opposed to its mission of making commerce more human. These moves have been applauded by Etsy stockholders: It has tripled its share price within the past year alone. But Etsy is no longer the same company it once was.

The root issue: the incentive to maximize profits

Etsy could have stayed loyal to its mission. It could have reinstated the B Corp certificate, banned manufactured goods, and better monitored the origins of goods sold through its platform. In reality, though, Etsy was never in a position to do so because of its corporate structure.

The same story applies to many other successful “sharing economy” companies like Airbnb and Lyft. Airbnb wanted to put the extra space people have in their apartments to better use. Today, it is driving less well off people away from city centers, while landlords turn their apartments into Airbnb rentals and cities wrestle with the mass tourism problems Airbnb has exacerbated. Lyft wanted to remove cars from the roads, but it has been shown to actually increase congestion as people choose Lyft instead of biking or traveling by public transport.
These companies can’t escape the profit-maximizing paradigm imposed by venture capitalists and the stock market. The solutions that would enable them to stay true to their original missions would be in conflict with the goal of maximizing shareholder value, as they would significantly impact the revenue and growth of these companies. This is why we most likely won’t see them fixing these issues.

**Rethinking ownership**

In order for the next generation of mission-driven startups like Sharetribe to avoid the fate of Etsy, Lyft, Airbnb, and countless others, we have to rethink the ways our companies are structured and the kind of capital we bring on to grow. We have a choice. We don’t need to create companies that are designed to maximize profits at all costs, or partner with venture capitalists who want us to become the next generation of unicorns at the expense of our missions and values.

We can instead implement steward-ownership structures in which profits are treated as a means of pursuing social missions, rather than end goals in and of themselves. These structures remove any financial incentive for a company’s management to maximize profit. Unlike B Corp certificates, steward-ownership forms are legally binding, and can never be dismantled once introduced. They ensure that the control of a company is held by people who are active on its team, rather than external stakeholders.

We transitioned to steward-ownership in 2018. For Sharetribe, our new structure means that it’s in our management’s best interest to put our social mission first, even if that means slowing down our growth. Everyone working at Sharetribe is incentivized, first and foremost, to make decisions that benefit not just the owners of the company, but all stakeholders, the environment, and society at large. Since transitioning, we can finally—and confidently—say that our company will always be a force for good in society.

“The most profound act of corporate responsibility for any company today is to rewrite its corporate bylaws or articles of association in order to redefine itself with a living purpose rooted in regenerative and distributive design and then to live and work by it.”

Kate Raworth
Sharetribe

Mission-aligned ownership and financing

Sharetribe’s model ensures that its mission of democratizing the sharing economy is protected over the long-term, and enables the company to bring in the capital necessary to grow and expand its team.

Sharetribe founders Juho Makkonen and Antti Virolainen started building sharing platforms in 2008. Since then they’ve grown Sharetribe into a thriving business and developed technology that enables more than 700 customers across 50 countries to build their own online marketplaces.

The sharing economy, which is expected to grow to $300 billion globally by 2025, is largely dominated by global giants like Airbnb, Etsy, Uber, and Fiverr. These online marketplaces provide effective cost-cutting solutions by skipping the middlemen while delivering convenience and quality. The failure of the sharing economy is that these global giants extract relatively large cuts from each transaction, leaving little to be distributed to the people working through these platforms. As a result, freelancers using these platforms often struggle financially, and do not receive the benefits to which traditional employees would be entitled.

Sharetribe offers an alternative. Its technology enables individuals to leverage the positive aspects of sharing marketplaces, while ensuring that the value created is distributed fairly, people have control over the conditions of their work, and resources are utilized efficiently. Its mission is to democratize the sharing economy by making platform technology accessible to everyone.

To protect this mission and ensure they would never be forced to exit or IPO, Juho and Antti transitioned Sharetribe to steward-ownership in 2018. Their Golden Share model ensures the steering wheel of the company will always remain in the hands of the people directly involved in its operation and mission. It also enables the company to take on new investments, and allows founders and early employees to share in the upside of the company’s success.
Clear division of voting and economic rights

Sharetribe’s Golden Share structure includes four share classes, separating economic from voting rights while enabling the company to take on growth capital.

**Steward-shares**

**A-Shares**

A-Shares have voting rights, but no dividend rights and are held by stewards. Holders of these shares must be active within the company. Founders hold the majority of these shares.

**Veto-share**

**B-Shares**

The Purpose Foundation holds a 1% veto-share without dividend rights. This B-Share can block a sale of the company and any change to the charter that would undermine steward-ownership.

**Investor-shares**

**C-Shares**

C-Shares have dividend rights, but no voting rights.

**Founder-shares**

**D-Shares**

D-Shares are held by founders and early team members. They have dividend rights, similar to investor-shares, but no voting rights and a capped upside. They represent delayed compensation for the founding years.
Steward-ownership

A-shares, or steward-shares, are retained by the company. They represent voting rights, but not dividend rights. Only individuals active in the company may hold A-shares. In the event that a team member leaves the company, their A-shares must be returned to the company or passed on to new team members. All of the company’s employees currently hold some voting shares, or options to acquire them. The majority are still held by Sharetribe’s founders.

One B-share was issued to The Purpose Foundation. The veto-share holder is responsible for vetoing any changes to the structure of Sharetribe’s charter that would undermine the legal separation of voting and dividend rights, as well as any attempted sale. The veto-share holder does not have any further rights, and cannot weigh in on the company’s operations.

C-shares represent dividend rights, but not voting rights. They are redeemable shares, which in the company’s last round of financing sold for €20 per share. The shareholder agreement requires the company to use 40 percent of its annual profits to redeem these shares for €100 per share until they have been fully redeemed; the goal is to buy back all the shares in the next 10 years. If Sharetribe does not meet the 10-year target, it will need to either redeem the remaining shares immediately from its free cash flow, refinance, or continue using 100 percent of its EBITDA in subsequent years to redeem shares until all investor-shares are bought back. This condition ensures that the company attempts to redeem all the shares on time.

During the transition to steward-ownership, the shares already held by founders and early team members were split into two: each old share became one A-share and nine D-shares. A-shares, as described above, have voting rights but no rights to profit-sharing. D-shares don’t have voting rights, but they have a right to redemption similar to that of investor-shares. The redemption schedule for D-shares is designed such that most of the redemptions for this class will happen only after the C-shares (investor-shares) have been fully redeemed.
Long-term mission protection

Sharetribe’s steward-ownership model ensures that the company will be controlled by the people most connected to its operation, mission, and customers over the long-term. By separating voting and dividend rights, the model protects the company from ever prioritizing profit over the benefit and impact of its mission. What’s more, the veto-share, held by a third party foundation, prevents any changes from being made to the company’s governance structure, and prohibits any sale.

“From now on, it’s in the best interest of our management to put our social mission first, even if that means slowing down our growth. Everyone working in the company is incentivized, first and foremost, to make decisions that benefit not just the owners of the company, but all other stakeholders, the environment, and society at large. After this change, we can finally—confidently—say that our company will always be a force for good in society.”

Juho Makkonen

Sharetribe Co-Founder and CEO
Ecosia

Steward-ownership: a non-profit alternative

Ecosia’s transition to steward-ownership ensures its mission of using profits to fight deforestation remains protected indefinitely.

Christian Kroll founded Ecosia in 2009 after a trip around the world exposed him to the environmental and social impact of deforestation. An alternative search engine, Ecosia uses the profits it generates from search queries to plant trees in areas most impacted by deforestation. Unlike Google and other dominant search engines, Ecosia is privacy-friendly, meaning it never sells data to advertisers, has no third-party trackers, and anonymizes all searches a week after they’re conducted. What’s more, all its servers run on 100 percent renewable solar energy, and each search removes 1kg of CO2 from the atmosphere. Since 2009 Ecosia has successfully planted more than 40 million trees across 16 countries. It currently has roughly 8 million regular users and a team of 40 employees.

Environmentalism with a business mindset

Environmental activism and advocacy have typically been the work of non-profits. These organizations depend on charitable donations to fund their projects and operations; as a result, they often spend a significant portion of their manpower maintaining relationships with donors and raising funds. These institutions are commonly restricted by their charitable tax status in how they define their mission, use donations, and generate revenue.

Although non-profits are an effective solution for some leaders and organizations, Christian wanted to bring a business mindset to environmentalism. He structured Ecosia as a for-profit social enterprise, which has given him and his team the entrepreneurial freedom to experiment, invest in the product, and iterate on business solutions.

Challenge: mission protection

After nearly a decade of significant growth, Christian and co-owner Tim Schumacher started to wonder: What would become to Ecosia if something catastrophic happened to one of us? How do we ensure that the company, which would theoretically be worth millions of dollars on the market, is never sold? How do we protect its mission and independence for the long-term?

The team considered several alternative ownership solutions to address these questions, including converting the business to a German non-profit and establishing a foundation. Both of these solutions had constraints, though: A non-profit, for example, would have restricted the team’s ability to dictate strategy on how best to use profits to fulfill the company’s mission. What’s more, a non-profit could theoretically be converted back into a for-profit and sold. A foundation would have been a more secure long-term ownership solution, but foundations are expensive to establish and operate, and could have limited Ecosia’s entrepreneurial freedom.
Solution: Golden Share

Ecosia needed an alternative, a solution that would provide the security of a foundation without the cost and overhead. With the support of the Purpose Foundation, Christian and Tim transitioned Ecosia to steward-ownership in 2018. By protecting its independence, Ecosia’s Golden Share model ensures that the company’s profits will be used to combat deforestation for generations to come. No one in or outside the company holds economic rights to Ecosia. The company will never be sold, and control of it will always remain with people directly involved in its mission and operations.

- **Christian Kroll**: 50% of voting rights
- **Tim Schumacher**: 49% of voting rights
- **Veto-share**: The Purpose Foundation holds a 1% Veto share without dividend rights. This share can block a sale of the company and any change to the charter that would undermine steward-ownership.
Steward-share ownership

Steward-shares are currently held by Christian and Tim, who hold 50 and 49 percent respectively. These shares represent voting rights, but not dividend rights. In the event that Christian or Tim leaves the company, their steward-shares must be passed on to new team members. In that event, a five-person succession committee would select new steward(s) for the business.

Veto-share

One B-share was issued to The Purpose Foundation. The veto-share holder is responsible for vetoing any attempted sale of the company, along with any changes to the structure of Ecosia’s charter that would undermine its steward-ownership structure. The veto-share holder does not have any further rights, and cannot weigh in on the company’s operations. In its charter, the Purpose Foundation is obliged to use its veto to help Ecosia to stay independent and mission-driven.

“Ecosia is rapidly becoming one of the biggest environmental movements in the world. We believe that a movement should not be owned by a single person and therefore steward-ownership is the perfect solution for us. Our new ownership model protects our mission but also provides entrepreneurial freedom.”

Christian Kroll
Ecosia
Long-term mission protection with entrepreneurial freedom

This structure protects Ecosia’s environmental mission and ensures that the business is able to make good on its pledge to plant 1 billion trees by 2025. This structure also gives Christian, Tim, and their team the entrepreneurial freedom to strategically determine how to best meet that goal. That could mean, for example, reinvesting profits in the product development, or expanding their team in the short term to scale their environmental impact in the long-term.

It also gives Ecosia the freedom to develop its environmental strategy, from planting trees to advocacy work and beyond. The team recently worked alongside Greenpeace and other leading non-profit environmental organizations to organize a protest against the destruction of the ancient Hambacher forest for lignite coal near Cologne, Germany. Over 50,000 people gathered in October 2018 to protest the clearing of the forest and Germany’s use of coal energy rather than renewable energy sources. They successfully blocked the clearing of the forest for another year, and are currently trying to purchase the forest from the coal company to ensure it’s permanently protected.
Ziel

Mission-aligned ownership structure and financing

Ziel makes on-demand, quality activewear apparel in the United States. With a strong focus on sustainability, Ziel’s model reduces waste and enables a flexible supply of clothing items which are made to order to the highest standard.

Marleen Vogelaar started Ziel in 2015 with a mission: to reduce waste in fashion manufacturing by leveraging on-demand technologies. Unlike traditional clothing manufacturers, which require design and inventory commitment a year before production, Ziel’s platform enables companies to commission custom athletic apparel with no minimum order and delivery in under 10 days. Although still in its early stages, Ziel’s designs have already been featured in Vogue magazine. The company has the potential to revolutionize how and where clothing is manufactured, and to dramatically decrease the amount of overproduction and waste in the apparel industry.

Making fashion sustainable

The fast fashion trend has become one of the world’s worst environmental offenders. Our reliance on toxic textile treatments and dyes has contaminated river systems and water quality in major garment manufacturing areas like China, India, and Bangladesh. Meanwhile, popular synthetics like polyester, nylon, and acrylic are essentially plastics made from petroleum. These materials take hundreds of years - if not more - to biodegrade.

Despite the adverse environmental impact of fashion manufacturing, we dispose of more clothing than ever. The apparel industry as a whole has a serious problem with overproduction: 40 percent of what it produces cannot be sold, and is destroyed or heavily discounted. These unwanted garments, which are often burned, shredded, or landfilled, have a huge impact on the planet. They release millions of tons of CO2 into the atmosphere and result in hundreds of millions of tons of unrecycled toxic textiles in landfills annually. With Ziel, Vogelaar wants to make the industry more sustainable by using ecologically friendly textiles and fundamentally rethinking how clothing is ordered and manufactured. As a co-founder of Shapeways, the world’s largest 3D printing service and marketplace, Vogelaar drove the transformation of 3D printing into the digital era of mass custom manufacturing. She’s now bringing this same on-demand, network-based approach to athletic wear to reduce waste. Ziel exclusively sources textiles from the US that are dyed with a water-free process to avoid waste and water pollution. All of its products are made in the US, helping to create local jobs for low-middle class workers and eliminating the financial and environmental costs of overseas shipping.

Steward-ownership: mission protection

With her experience founding Shapeways and raising over $75 million in venture capital, Vogelaar is well-versed in the trade-off between growth and control. With Ziel she wanted to do things differently: She wanted to secure growth capital, while ensuring her mission of reducing fashion waste was never compromised by the needs of external stakeholders. Rather than exit the company through an IPO or private sale, Vogelaar wanted to keep control of the company inside the company with mission-aligned stewards.

To protect the company’s independence and mission for the long-term, Vogelaar transitioned the company to steward-ownership. Ziel’s Golden Share structure enables the company to take on the necessary capital to grow, while ensuring its independence and mission are protected over the long-term.
Clear division of voting and economic rights

Ziel’s Golden Share structure includes four share classes, separating economic from voting rights while enabling the company to take on growth capital.

Steward-shares
Represent 99% of voting rights of the company, but no dividend rights.

Founder-shares
Founder shares have dividend rights but no voting rights. They are bought back by the company at a pre-determined valuation and represent delayed compensation for the founding years.

Veto-share
The Purpose Foundation holds a 1% Veto-share without dividend rights. This share can block a sale of the company and any change to the charter that would undermine steward-ownership.

Investor-shares
Investor-shares hold dividend rights, but no voting rights.
Steward-ownership

Steward-shares, in this case Class A Common Stock in a US corporation, are retained by the company. They represent voting rights but not dividend rights. Only individuals active in the company may hold A-Shares. In the event that a team member leaves the company, their A-Shares must be returned to the company or passed on to new team members.

There are two types of B-shares: Founder and Employee B-shares. B-shares don’t have voting rights, but they can be redeemed by the company and receive dividends. The proportion of profits the company can use to buy back B-Shares is limited to protect the upside of investor-shares (D-shares).

One C-share was issued to The Purpose Foundation. The veto-share holder is responsible for vetoing any changes to the structure of Ziel’s charter that would undermine the legal separation of voting and dividend rights, as well as any attempted sale of the company. The veto-share holder does not have any further rights, and cannot weigh in on the company’s operations.

D-shares represent dividend rights but not voting rights. Structured as non-voting preferred equity, D-shares represent redeemable shares. The shareholder agreement requires the company to use a proportion of its free cash flow to redeem these shares for a predefined amount per share until they have been fully redeemed; the goal is to buy back all the shares in the next 10 years.
Ziel’s steward-ownership model ensures the steering wheel of the company remains with the people most connected to its mission, customers, and operation over the long-term. By separating voting and dividend rights, the model protects the company from ever being forced by investors to maximize profit at the expense of purpose. What’s more, the veto-share, held by a third party foundation, prevents any changes from being made to the company’s governance structure, and prohibits any sale.
Succession
Why we need new solutions for succession: family business 2.0

Ernst Schütz

An owner’s perspective: company succession based on ideas and values

When I came to Waschbär in 2000, it was on the verge of bankruptcy. After the bankruptcy, I had the chance to rebuild the company, which was held by Triodos Venture Capital Fund. I led the company as CEO on behalf of the fund for four years. When I learned that the fund was closing and that it would sell in shares in Waschbär, I decided to buy the company and become its owner through a management buy-out. My goal was to save the company and our mission of making the planet healthier and cleaner by delivering sustainably produced, high-quality fashion, and household items directly to our customer’s homes. It was important to me to control the supply chain and manage our logistics in order to ensure that everybody who contributed to our business was treated fairly.

When I first started to consider succession, there were only two clear options available for a medium-sized, privately owned company like Waschbär. The first is family succession, which is the standard solution for family-owned businesses in Germany. I’m not confident that my children would be the best people to run Waschbär, simply because they are my children. What’s more, my children are all adults. I became the owner of Waschbär at the age of 55. At that time my children had already chosen their own professional paths, and I am glad that they had the freedom to do so. The prospect of inheriting a family business can often be a burden to potential heirs.

The second option is to sell the company to a competitor or private investor. During my tenure as Waschbär’s owner, I received many offers to sell the company, some at very high valuations. Those offers never really interested me, though. To me, they are a reflection of a society and an economic system in which the primary goal is to make more money, regardless of how much wealth you already have.

Two things that mattered to me more than money in planning for Waschbär’s succession.

Firstly, I wanted to preserve the values and purpose of Waschbär. Secondly, I wanted to give something back to the people who helped me reanimate the company. Waschbär would not have had its successes had it not been for all its employees work and dedication.

I’ve seen the consequences of selling family-owned businesses to investors. In an effort to recoup their investments, especially on high value acquisitions, investors squeeze the maximum bottom-line out of these businesses. This profit “optimization” occurs at the expense of other stakeholders, such as employees, the environment, and ultimately customers, although they may not realize it. Neither of these options was suitable for protecting Waschbär’s values, mission, or culture for the long-term, which is why I started looking for alternatives. I wanted a succession solution that would ensure the business remained in the hands of the most qualified, mission-aligned stewards.
Keeping the company in the “value and mission” family

I knew if I could ensure Waschbär would never be sold to an investor or conglomerate or inherited by someone purely by cosmic chance, I would be willing to pass the company on to a successor at below market value. This solution would mimic family businesses in which the company is passed on to the next generation for free or for a significantly discounted price. In family businesses, each generation considers themselves a steward of the business. Their responsibility is to take care of the company for the next generation. No one ever extracts all the potential value from the business, as would happen in a sale. This solution is part of what makes family businesses so resilient, but it’s dependent on there being the right successors in the family.

To apply this logic to successors outside of a family requires a different understanding of ownership, which we have come to call “steward-ownership.” As detailed in this book, steward-ownership ensures that the control of a company is kept in the hands of qualified, value-aligned stewards. As a result, the business can never be sold to third-party investors and its profits serve a purpose.

In 2016 we transitioned Waschbär to steward-ownership. Its Golden Share structure ensures the company will never be sold and that its profits will never be extracted. To achieve this, I helped set up the Purpose Foundation, a veto-share holding foundation based in Switzerland.

The Foundation just needs 1 percent of voting rights to veto an attempted sale or any changes to Waschbär’s structure that would undermine the separation of voting and dividend rights. The Purpose Foundation holds a veto-share in Waschbär along with the veto-shares of a dozen other companies.

The Foundation is mandated by its own charter to veto any changes to Waschbär’s structure that would undermine the separation of voting and dividend rights or an attempted sale. It ensures that the core principles of steward-ownership will never be changed by future generations. I was fortunate to have very capable successors within Waschbär who were willing and interested in becoming the new steward-owners of the business. They are now the stewards of Waschbär. I am confident that Waschbär will stay independent and true to its values for the long-term.

Small and medium-sized businesses need steward-ownership solutions, like the one we developed for Waschbär. As the German Mittelstand faces a “succession crisis,” these businesses need viable alternatives to selling to third-party investors and multinational corporations, which are scooping up independent companies in order to dismantle them and leverage their assets for other profit-maximizing operations. This trend has lead to an unprecedented centralization of wealth and knowledge.

My hope is that Waschbär’s story, along with the other examples in this book, will inspire more entrepreneurs and owners to leverage succession solutions that preserve the values upon which their companies were built and help support a diverse, decentralized economy.

Ernst Schütz is a founder of several companies in the eco-textile industry. Most recently, he was the founder of Europe’s largest eco-e-retailer in Europe: Waschbär and the Triaz Group. Waschbär became steward-owned in 2017. Schütz is a co-founder of the Purpose Foundation.
Waschbär

Golden Share: a succession solution

Waschbär’s Golden Share model ensures that the company remains independent and committed to its employees and its customers, as well as its mission to help people live and act in an environmentally sustainable way in their everyday lives.

Founded in 1987, Waschbär has been at the forefront of the sustainable consumer products trend in Germany. Today the company is the leading ecologically and socially responsible mail order company in Europe, with over €85 million in revenue and 360 employees. Waschbär only sells carefully selected, sustainably sourced, ecologically friendly products, including natural textiles, shoes, cosmetics, furniture, and household goods, and was the first company to offer CO2-neutral shipping. The company and its stewards are committed to making ecological products accessible to customers.

Triaz GmbH, Waschbär’s holding company, was founded by Leo Pröstler as Germany’s first mail order company for organic textiles and sustainable consumer products. In 2001 the company went bankrupt, and Ernst Schütz stepped in to rebuild it. Schütz successfully turned the company around, growing it into the successful, profitable firm it is today. He ultimately bought the company from the bank for around €7 million.

When Schütz was ready to retire, he faced a common dilemma: how to ensure that his company’s mission and impact were protected for the long-term, while also obtaining some level of liquidity.

To preserve this mission and protect Waschbär’s independence over the long-term, Schütz transitioned the company to a Golden Share steward-ownership structure in 2017. In return for giving up all his dividend rights, he would receive a pension from the company. This model ensured that the company could never be sold, and would instead remain in the hands of stewards who were directly involved in the business’ operations.
Clear division of voting and economic rights

The Golden Share model separates economic rights from voting rights through the use of different shareholder classes. Triaz GmbH has one shareholder: Aritz GmbH, which in turn has three shareholder groups.

The succession council is comprised of a member of the Purpose Foundation, a member appointed by the company's management, and a member selected by both parties. The succession council selects successors for stewards based on recommendations from current stewards. If the stewards were to bring the company near bankruptcy or violate the law, the succession council has a right to remove them.
Steward-ownership

- **Steward-shares**
  The first generation of stewards were selected by Schütz. The steward-owners have voting rights, but no dividend rights. When a steward leaves the company, she can elect a new steward. Successors can be vetoed by a succession board. The succession board also has the power to replace a steward should they violate the terms of their position. The succession board is comprised of three members: one selected by company, the veto-share holder (Purpose Foundation), and one selected by the company and the veto-share holder.

- **Investor-shares**
  Investors have dividend rights, but no voting rights. These shares are held by the company itself, foundations, and investors.

- **Golden share**
  The Golden Share is held by the Purpose Foundation, a veto-share service provider based in Switzerland. The foundation does not have any influence over the business or its operations; it serves only to ensure that the statutes of Waschbär's charter regarding steward-ownership are never changed, and to block any attempted sale. The foundation itself is mandated by its constitution to veto any such changes. Changes to Waschbär steward-ownership status can only be made with almost unanimous decision of the Purpose Foundation Entrepreneur Council, which is comprised of representatives from all of the companies with veto-shares held by the foundation.

  Waschbär's structure mimics the Trust-Foundation structure already discussed in this book (Page 23), without the expenses that setting up a foundation or trust would entail or the long-term management overhead.
Long-term mission protection

The Golden Share ensures that the company will remain controlled by the people most connected to its operation, mission, and customers over the long-term. By separating voting and dividend rights, the model protects the company from ever being used to maximize profit over the impact of its mission. What’s more, the veto-share being held by a third party foundation prevents any changes from being made to the company’s governance structure, and prohibits any sale. This structure is designed to keep Waschbär mission-driven and independent over the long-term.
“As a steward-owned company, we have the freedom to act in the interest of the company, our customers, and employees. Our company will never be a speculative good. It belongs to itself and will remain independent.”

Katharina Hupfer
Speaker of the Management Board
Organically Grown Company

Multi-stakeholder perpetual purpose trust

Organically Grown Company has been a leader in sustainable and organic agriculture for over 40 years. Its transition to steward-ownership reflects the company’s deep commitment to supporting organic agriculture and helping it thrive by doing business in a way that is good, clean, and fair.

Founded in 1978, Organically Grown Company (OGC) has been a pioneer in sustainable, organic agriculture for over 40 years. From its roots as a farmer-run non-profit, OGC has grown into one of the largest independent organic produce distributors in the United States. In 2017 the company moved more than 100 million pounds of fresh fruit and vegetables across the Pacific Northwest, employing more than 200 people. OGC has been instrumental in building and supporting organic regulation and trade at both the regional and national levels.

OGC understands the impact ownership can have on an organization’s mission, and has utilized multiple ownership structures over the course of its existence. It began as a non-profit set up to help farmers implement organic growing methods; a few years later, however, the founders realized that selling the goods farmers produced would be a more effective way to support both them and the larger movement. The company became a farmers’ cooperative, and later an S-Corp that worked to include employees in its ownership structure. Eventually, OGC created an employee stock ownership plan (ESOP).

Scaling without selling

A few years ago the company was faced with a common business challenge: How does a mission-based company scale and transition its founders and early employees without selling or going public? OGC needed a long-term ownership solution that would allow it to remain purpose-driven and independent. Presented with this challenge, OGC sought an alternative ownership structure in the form of a Perpetual Purpose Trust (PPT), along with financing solutions that would enable the company to responsibly exit owners and employees while preserving its mission.

In 2018 OGC established the Sustainable Food and Agriculture PPT. Unlike conventional trusts, a PPT is established for the benefit of a purpose, rather than a person. It’s also unique in that it runs in perpetuity instead of having a limit of 21 years or ending with the death of the grantor.

OGC used a combination of debt and equity to buy back all of the shares from its stockholders in order to transition from an ESOP to a PPT; the Trust will eventually hold 100 percent of the company’s ownership rights. This structure ensures OGC’s long-term independence and mission-commitment.
The Sustainable Food & Agriculture Perpetual Purpose Trust

Organically Grown Company

Trust Enforcer
Legal power to enforce purpose of the trust

Delaware Trustee
Hired trust management firm to carry out any admin functions of the trust

OGC Board
Appoints
Trust Protector Committee
ELECT

Owns and controls

Succession

Case study

Employees
Investors
Farmers
Customers
Community
Like all forms of steward-ownership, the Sustainable Food and Agriculture PPT ensures the separation of economic and voting rights. The PPT’s Trust Agreement lays out the powers of the trustees and the company’s governance processes. Power is shared among three governance bodies: the Corporate Trustee, the Trust Protector Committee, and the Trust Enforcer.

**Delaware Corporate Trustee**

The Corporate Trustee is responsible for the prudent management of the Trust in accordance with the Trust Agreement terms. The Trustee is responsible for the Trust’s administration, including tax reporting, trust distributions, etc. The original Trustee is appointed in the Trust Agreement. In the future, the Trust Protector Committee may remove or replace the Trustee, or the Trustee may appoint a successor.

**Trust Protector Committee**

The Trust Protector Committee serves as the steward of OGC’s mission. It is comprised of a broad range of stakeholders, including employees, growers, key customers, investors, and community representatives. Current committee members include Joe Rogoff, former president of Whole Foods Market, and George Siemon, CEO of Organic Valley.

The authorities of the Trust Protector Committee are defined in the Trust Agreement. The Committee may modify the Trust Agreement, but cannot unilaterally redefine its purpose. The Committee is responsible for approving distributions from the Trust, as well as electing OGC’s operational Board of Directors.

**Trust Enforcer**

The Trust Enforcer is a stand-in for a traditional trust beneficiary, and is responsible for enforcing the purposes of the trust. The Enforcer may request and review information about OGC’s financing, receive grievances from stakeholders concerning the operation of the Trust, and pursue legal action to enforce the purposes of the Trust.
Structuring alternative financing solutions

In order to buy out previous shareholders and recapitalize its business, OGC leveraged a combination of debt and equity. The transaction presented a unique challenge: How could OGC provide investors with a reasonable risk-adjusted return on their investments while honoring its commitment to prioritizing purpose over profits? How could it balance the demands of a shared-representation structure with its need to maintain its own independence? To solve this problem, OGC and its investors collaborated on a deal structure that would balance both profits and governance responsibilities between the company and its stakeholder groups.

Shared governance

Investors are included as one of the five key stakeholder groups represented in the Trust Protector Committee. The committee is responsible for ensuring that the company is fulfilling its mission of supporting a healthy food ecosystem, and that the Board is operating the company for the benefit of all its stakeholders. If one of the stakeholder groups feels that OGC’s Board or management is not acting in its best interests, it can petition the Trust Protector Committee to intervene on its behalf.

Shared upside

Preferred equity investors are entitled to a base preferred dividend. This dividend is cumulative – that is, if the dividend is not paid one year, it is still due the following year. Investor dividends are to be paid before any other stakeholder groups participate in profit distributions. The logic behind this structure is that workers and growers have already received their base pay as part of the ordinary course of business, so investors should get their preferred/base returns before others receive their benefits. OGC will distribute any excess profits to its stakeholder groups based on a predefined split:

Investors share in the company’s profits when it does well, as is customary for an equity investment. For instance, if OGC does well, dividends to investors could increase by a factor of two or more. Investors do not extract an outsized share of profits, however. Should the company produce surplus profits, other stakeholder groups receive 60 percent of additional distributions until investors receive a predefined percent of dividends, and 80 percent of profits thereafter.
Purpose maximization

The PPT structure enables OGC to remain permanently independent and to continue to deliver on its positive environmental, social, and economic goals without pressure to demonstrate short-term quarterly profits or produce exit-value for shareholders. Furthermore, it enables the stewards of the organization, who represent a broad range of stakeholders – including farmers, employees, customers, investors, and the wider community – to realize the company’s purpose while sharing in its profits.
“This groundbreaking ownership model embeds OGC’s commitment to organic and sustainable agriculture, and corporate, social, and environmental stewardship into our governance and financing structure. Placing the company into a Purpose Trust ensures that we stay focused on our mission’s North Star, share real-time rewards with our stakeholders, and have aligned financing to increase our impact.”

Elizabeth Nardi

CEO of Organically Grown Company
Elobau

Foundation ownership: succession alternative

Michael Hetzer, the second-generation owner for the family-owned business Elobau, sought an alternative to traditional family succession that would give his children the freedom to pursue their passions while ensuring the company's independence, values, and purpose of the company were permanently enshrined in its legal structure.

Founded in 1972 by Fritz Hetzer, Elobau has been a family-owned and operated company for two generations. A leader in its industry, Elobau develops, manufactures, and supports customer-specific sensor technology solutions for various applications in the industrial and automotive engineering industries, including agricultural and construction machinery and forklift trucks. Today it is a leader in its market, with roughly 900 employees and €114 million in revenue.

Nine years ago Michael Hetzer, current chairman of the advisory board and member of the three-person executive leadership team, began to question whether family succession was the right path for Elobau. The question was prompted by a conversation Hetzer had with his second-born son, then eight years old, who asked, "Dad, if my brother doesn’t take over the company, I have to, right?" Hetzer was surprised; he had never spoken much about the company or its future with his sons, yet his elementary school-aged son already felt the weight and obligation of carrying on the family business. He wanted his sons to have the freedom to pursue their own paths in life – not to feel obligated by the family business.

Hetzer set out to develop a trust-foundation structure, with two objectives: First, to ensure control of Elobau was never sold, and that the company would continue to be lead by qualified, value-aligned successors; and second, to enable charitable work that would further strengthen the sense of social responsibility that had always existed within the organization. He spent six years devising a governance structure that would enable the company to continue delivering high-quality solutions and products to its customers. The steward-ownership structure ensures Elobau will continue to deliver on its responsibility to employees, society, and the environment, regardless of whether Hetzer’s sons decided to join the firm or not.
Trust-Foundation structure

Elobau is now owned by two separate entities: a “family” trust and a charitable foundation. This two-entity structure ensures a clear separation of voting and economic rights.
Family trust

The family trust holds 99 percent of steward-shares with voting rights and 1 percent of the company’s economic rights. Although structured as a family trust, the trust has no direct relationship to the Hetzer family. The trust is managed by an advisory board comprised of three to four members who are not directly involved in Elobau’s operations. The exception is Hetzer, who currently serves as part of the executive leadership team.

Charitable foundation

The charitable foundation holds 99 percent of the company’s economic rights and 1 percent of its voting rights. Although the foundation holds the majority of the company’s economic rights, it is not entitled to receive full profits from the company. Elobau’s charitable foundation is guaranteed a minimum of 10 percent of profits annually. 99 percent of those profits are given to the charity, while 1 percent is passed on to the family trust, which is kept in reserve for when the trust must pay inheritance tax every 30 years.

Long-term values commitment

Elobau’s steward-ownership structure ensures that the company maintains its long-term commitment to its customers, employees, the environment, and society. For employees, it communicates that the company serves a purpose beyond making a profit. It offers them the security of knowing the company will never be bought by absentee owners who would potentially lay off workers to increase profits or change the company’s culture. Elobau wants to cultivate a culture of personal responsibility, innovation, and self-management, such that employees feel confident and inspired to bring new ideas, take on new responsibilities, and act as stewards within the organization. The company also intends to continue its commitment to the environment, sustainability, and innovation through its “Creating Sustainable Solutions” initiative, an effort to increasingly improve the company’s sustainability impact across its company and offerings.

A legacy of philanthropy

With the profits provided by the trust-foundation structure, the Elobau Foundation develops and supports charitable initiatives in the fields of education, environmental protection, and social integration. In collaboration with other foundations and non-profits, the Elobau Foundation has supported projects including the pilot Hans Multscher High School, efforts to improve biodiversity, bee protection, and an online job portal for refugees.
“On the one hand, the foundation was established in order to sustainably and autonomously preserve our company. And secondly, with the foundation’s core focus on education, environmental protection, and integration, I deliberately chose charitable topics that are dear to my heart.”

Michael Hetzer
Perspectives on stewardship
On ownership – a conversation with Prof. Colin Mayer

Colin Mayer is the Peter Moores Professor of Management Studies at Oxford University’s Said Business School, and served as the Peter Moores Dean of the School between 2006 and 2011. He is an expert on all aspects of corporate finance, governance and taxation, and the regulation of financial institutions. He has consulted for numerous large firms and for governments, regulators, and international agencies around the world.

What are corporations for? Why do they exist?

Colin Mayer: Corporations exist to perform functions that benefit the customers or communities of the corporations. And that reflects the origins of corporations. The first named corporation was established in Rome to undertake public functions during the first few centuries AD. The Roman concept of the corporation was designed to undertake public work, and it was subsequently adopted by the Roman Catholic Church. And in each case, they had a specifically designed function. The public works of corporations included the building of public buildings, roads, the provision of public services. One of the earliest known forms of corporation is the university.

Public goods, as we would call them today.

CM: Yes, exactly. And in the case of the Catholic church, it was literally to run and provide the administration. In the case of the universities, it was to provide education. And in the Middle Ages it was part of the formation of the guilds overtaking trading functions, providing training for people working in those guilds.

So you take an opposing perspective to well-known statements such as “The purpose of a company is to maximize its own profits.” You wouldn’t agree with this.

CM: No, not at all. The purpose of a company is to perform functions that will benefit communities, societies, and customers, and in the process of doing that the owners of a company generate profits – but profits are not as such the objective of a corporation.

What are profits for then?

CM: Profits are there to provide the incentives for those who put up the capital for the business to do so, it is the reward for doing so. But while those who work for the company should be rewarded for doing so, that does not make the maximization of profits the objective of the company. The objective of the company is to deliver things that will benefit others, and in the process to make profits.

Today not many people have the impression that this is the reason corporations exist. How was this back in the old days in Rome? Did this work there already? Did the companies really work for the public benefit? What was different?

CM: What is different about the companies of Rome and those established in the Middle Ages was that they were established under license. So they had a fundamental purpose to fulfill those public functions. In the case of the medieval guilds, it was to perform the roles in terms of the delivery of particular services. In the case of the medieval companies, they got a license from the king, the monarchy, and then subsequently from parliament. So, for example, corporations in the 18th and 19th centuries, the 18th century in particular, which built railways and canals did so under licenses from parliament. So the corporation up until the 19th century was essentially licensed by government or the monarchies to perform its functions with a clearly defined public purpose behind them.

What changed that was really the establishment of the colonies in the United States. The colonies were established as corporations. So, for example, Massachusetts, Pennsylvania etc. were established as corporations. And then, in turn, they committed others to establish corporations within those states. And so emerged the freedom to incorporate, which became a feature of the corporation during the 19th century. And thereafter the distinct public function of a corporation was no longer the case.
So, all that began with colonization?

CM: Yes. So, it really emerged as part of the colonization function. And then it was adopted more widely in European companies as well.

And before that, every company had to have a license?

CM: They all had licenses to operate. There was only really in the 19th century a notion of freedom to incorporate.

That’s interesting. And during this period of licensing, what was the ownership structure of these companies?

CM: So, there were public subscriptions much along the lines of what we have today. So, to take another example, the East Indian Company, which was one of the largest companies of its time in the world, had external public subscribers, so the notion of there being shareholders was well-established.

But the difference was that those companies, although they had shareholders, had to perform this public function. So, in history, the fundamental purpose of the company was to fulfill its licensing condition. And as part of that, it would then generate profits. So that’s why I’m saying: The underlying notion of corporations was not to maximize their profits.

Was the East Indian Company the first company that actually had shareholders, in the sense that people who did not work for the company owned it?

CM: Well, it was not the first. I mean, for example, there was the Russian Company or the Hudson Bay Company, which were established to undertake trading activities. They all had that same notion of there being a purpose and objective of the establishment of a corporation, and then shareholders who invested in them.
Now, if you look at other ones, the universities, eg., you take the Cambridge colleges, you’ll find that today every single Cambridge college has its own royal charter, its own legal form of purpose. They don’t have outside shareholders, but the people who run them are the fellows of the colleges.

Are they the owners?

CM: No. They are, if you like, the trustees. They are responsible for ensuring that the purpose is fulfilled and that the original charter is met. There are no owners as such. They are, if you like, ownerless corporations.

Now, what does this mean in legal terms? They are trustees, and as such they hold the voting right in order to govern the particular corporation during the time they work for it, is that right?

CM: Yes, as long as they work there. When they retire they are no longer members of the governing body of the college.

If we split the terms “ownership” or “property” into a bundle of rights including the ability to govern, to receive profits, to sell a company, inherit it, or even destroy it, then as I understand it the college fellows inclusively hold the right to govern.

CM: Yes, they have if you like “management rights” but not “ownership rights”. This in particular was an important element to the corporation, because what the companies like the Russian Company did was take the notion of the guild – they had this “ministerial” role, they were just purely administering the activities like merging or trading – but then fused that into the notion of having capital and being able to raise more capital. So the real invention behind things like The East Indian Company is to take the notion of a guild as administration and to fuse into that the notion of being able to raise capital. And that’s what really gives rise to the distinctive feature of a corporation; it is that combination of capital and administration.

In your book, you make a strong claim about what problems corporations face. Why are corporations widely seen as a problem for society, an actor that only maximizes its own profits?

CM: Well, you really described the problem in your question. The problem is that the original intention of corporations is being lost. And the fact that you open your remarks by saying, well, actually, everyone thinks that the corporation has the objective to maximize its profit – that’s basically the source of the problem that you’re talking about. And it might therefore just help to understand how this has come about, and how we’ve gone from the notion of a corporation in the Middle Ages to where it is today. Freedom of incorporation, as I described it, is not itself a problem. Indeed, initially, corporations performed a very strong purpose and function. Not necessarily a public function, but they clearly had a notion of servicing their customers.

It was really during the 20th century with the change in the nature of the ownership of corporations that the emphasis shifted to the importance of the shareholders, to maximizing in the service of shareholders. The legal form of a corporation specifies, very clearly, the objective of those running the corporation is to promote the interest of the corporation, not to promote the interests of its shareholders. So, in principle, the fiduciary responsibility of directors is to the company as such; but in practice that is of little significance, and in fact all of the controlling rights reside with the shareholders. And the reason that that has happened is that shareholding has moved from individual shareholding – what it used to be and in many countries still is, predominantly in the hands of families – to large numbers of outside shareholders, and then to institutional shareholders. And those institutional shareholders, since they are responsible to their ultimate investors, they regard their sole responsibility – perhaps quite rightly – as being just to extract as much as they can in terms of returns from the companies in which they invest. So the system has moved over time into one that has essentially conferred all of the rights and controls to shareholders, and shifted it away from those who run the corporation, who had an interest in ensuring what the interests of the corporation itself were.
The motivators for that were the technological changes occurring around the time of the Industrial Revolution in particular.

There were a lot of new opportunities, in particular manufacturing opportunities that emerged that previously had not existed. That meant that the functions that needed to be performed in the economy were not based simply on public works and infrastructure. They all indeed were run in agriculture. So, around the time that Adam Smith was writing, there was a change in progress in terms of the meat of what a corporation should have to fulfill towards essentially much more innovative activities. And it was those innovative activities that then gave rise to pressure to have a freedom of incorporation.

So after the collapse of the South Sea Company in 1720, the Bubble Act prevented people from establishing private companies. But people were getting round that through essentially using partnerships, in other words unincorporated businesses. People were using unincorporated partnerships as a way of creating companies. In fact, the law was allowing people to establish surrogate corporations, and in the case of Britain in 1856 it was decided that really one had to establish private corporations as legal entities and not to encourage this way of getting around the law to establish companies.

Was this also when the limited liability act was implemented?

CM: Yes, limited liability came into being in 1856. It was designed to facilitate the raising of capital for companies that were being incorporated. And the notion of limited liability was much opposed at that time. It was a very important component of the law that allowed corporations to flourish. Some people say that limited liability is really the problem behind the corporation, and if one had freedom of incorporation without limited liability than we wouldn’t have the current problem. But that is a complete misunderstanding. I mean, it is true that in the absence of limited liability those who own banks have a greater interest in ensuring they don’t engage in reckless activities, but to be able to have a market and shares in companies, you have to have limited liability. Because otherwise, in terms of purchasing shares, you would only be willing to buy shares if you knew how much wealth everyone else in the company had in order to know what your liability actually is. So it is infeasible to run a system without limited liability.

We just touched the topic already briefly, but perhaps a bit more precisely what is actually the problem of these shareholder-driven companies?

CM: The problem with starting from the notion of saying that a company’s objective is to maximize its shareholders’ interests is that it potentially undermines what is the real objective of the corporation, and that is to fulfill its purpose. The great thing about freedom of incorporation, and the reason why this was a massive step forwards, is that for freedom of incorporation you can have a myriad of purposes of companies. Companies that are designed to produce the cheapest products, companies that are designed to produce the most reliable products, those that are most innovative in whatever... Whereas previously it was only the monarch or parliament who could actually identify what should be the purpose of a company.

So the freedom of incorporation has allowed for a huge diversity of purpose, and through permitting people to identify the purpose you then allow them to identify with what is the mechanism by which they can best deliver that purpose. And incredibly, they show that they will actually deliver the best washing machines, the most reliable cars or whatever. And the answer to that is that in some cases it hinges critically on employing the most skilled people, people who are really dedicated to producing the services that are required. In some cases it requires raising large amounts of capital. But what this means is there are lots of different interests in the companies. In some cases it is the suppliers who are critically important – for example, a company that I do a lot of work with is one of the natural chocolate manufacturers, and for them access to the cocoa producers in the world and having a reliable source of cocoa supply is important.
That’s true for the most successful companies in the world. They have as their purpose objectives that are not maximizing shareholder value, and in the process of delivering their purpose they succeed in delivering in substantial terms for their shareholders.”

Colin Mayer
What would you say is the corporation of the future? Where are we heading to?

CM: There are three themes that are really emerging in the current discussions about corporations. Those are: One, purpose, ensuring purpose; two, ownership and the kind of ownership that’s contributive to the delivery of that purpose; and three, governance and the way in which the management of companies is aligned with the delivery of that purpose. Those are the three key elements that are emerging.

CM: What’s going to be the key feature of the corporation of the 21st century?

CM: There are two possibilities: One is that we continue along the current trajectory, and actually we have continuing failures and collapses of economies and financial systems and continuing environmental degradation. The second is that we actually recognize the fact that there is a fundamental problem, and a new form comes about. And if a new form comes about, what we will end up with is corporations that reflect in many respects what I was describing with this original feature of corporations that deliver substantial benefits to communities, nations, and customers. I’m optimistic. I may be naive, but I believe that there is now a sufficient realization that this needs to happen, that change is going to take place.

I’ll give you an example of the way I think change is manifesting: The curricula of business schools around the world are changing dramatically from being focused on how management should deliver shareholder returns to recognizing that, actually, that’s not the right focus of business school curricula, and it has to be on what is the purpose of a corporation and how should it deliver on that.
What does this mean on a company level? If we shift towards purpose-driven companies, do we stick to the current ownership structure with the shareholders?

CM: What it means for companies is that they are shifting their ownership. There are two changes taking place, one of which is that those that are running institutions like pension funds and life-insurance companies are increasingly realizing that the approach they have taken in the past century towards portfolio management, holding diversified portfolios, is not beneficial for them, and that actual success comes from being engaged, long-term shareholders. Not hedge-fund activism, but activism in the form of being supportive of management and ensuring that management will deliver on its purpose. That is one change that is taking place in terms of the nature of the institutional investment.

The other change that is taking place is that companies are increasingly realizing that the influence of the stock market on their activities is becoming incredibly detrimental. And so one of the features that is taking place over the past few years is a collapse of stock markets in the west. So, for example, over the last twenty years, the number of companies listed in the London Stock Exchange has halved from 2,000 to 1,000, and the same is taking place in the US. Companies are voting with their feet, private equity is rising and companies are going private. But private equity is not the solution, because companies need many cases to raise capital; so what will emerge is a very different nature of ownership. Companies will still be listed on stock markets, but they will have long-term, committed shareholders.

Does this mean the change consists only in the fact that shareholders, e.g. pension funds, will invest with a more long-term perspective? Who will hold the control rights?

CM: The ultimate control rights reside with those who have an interest in the delivery of the long-term purpose of the corporation. That may not necessarily be pension funds or insurance companies. The interesting feature of companies like Bertelsmann and Bosch is that they are not controlled by pension funds but by foundations, and that, I think, is a very interesting alternative model that has some advantages over the pension fund/life insurance approach.

This morning you also described the structure of the corporations within colleges like Cambridge and Oxford. You called the trustees the responsible cooperating partners. Don’t you think, this could be a model for companies, too?

CM: So, that’s basically like the foundations. If you like, the foundations are not quite ownerless companies, but are almost ownerless companies. Because the foundations themselves are not answerable to any outside investor. So, the Oxford Colleges model is in many respects a bit like an industrial foundation.

If you could design the perfect legal form for future companies, what would it be like?

CM: I would design it in a way to encourage as much diversity in corporate forms as possible. So, legislation should enable a company to choose that form which is best suited to its situation. It shouldn’t be prescriptive in laying down any particular right form. For example, in some cases employee-owned companies are appropriate; in other cases, industrial foundations may be appropriate. An unfortunate feature of what the European Commission is trying to do is based on trying to harmonize, rather than recognizing the immense benefits that come in the European system from diversity.

You started off by depicting historical elements concerning features of corporations, especially the fact that every company needed a "license." Who could be the "purpose licence-provider" of the future?

CM: In many of the most successful companies, the essential purpose comes from those who founded the organization. And that’s where the advantage over public licensing comes
from, because you can then have a lot of individual ideas to what the purpose should be. In my book, I talk about this a bit like having lots of islands: The world is populated by islands with different purposes, and people can choose which island they want to live in, buy from, work for, invest in.

This also goes in line with studies from Harvard and Zurich University saying that 90% of founders of companies are actually intrinsically motivated and they don’t strive for profit maximization. But then the question is, how can we make sure that this purpose drive remains when the company all of a sudden needs more money?

CM: That was the problem behind corporations. For example, in Britain, we had a lot of highly motivated and altruistic family companies, but then in the process of setting up stock markets, the businesses became invalid.

That is the advantage of the foundation. The foundation has two advantages: One, it avoids the dilution problem, because the foundation can retain control. But it also overcomes the heredity problem, which forces a company to depend on whether or not the descendants have the entrepreneurial genes of their parents. It essentially allows one to select from a much richer gene pool than in the case of just pure family companies.

Let’s go 50 years into the future. We have a lot of purpose-driven companies. How is this going to influence the functions of the economy?

CM: Well, I can illustrate that with perhaps what is the most troublesome area of the economy at the moment, and that is the banking system, where basically what we’re trying to do is to ensure that the objectives of banks are aligned with the public purpose simply through regulation. The problem with that is that the objectives of regulators in upholding the public purpose is diametrically opposed to the objectives of owners in terms of maximizing profit. So, the owners do whatever they can to get around the regulations.

Now, what I’ve just been describing in terms of changing the purpose – and in the case of banks ensuring the license condition is part of the purpose – that means that the fiduciary responsibilities of the directors are no longer simply to maximize profits, but to deliver on that purpose of the company. So, instead of that being a conflict between the bank and the regulator, the interest of the two becomes aligned. Through this process, whatever is perceived to be the public interest is actually delivered by corporations, not circumvented by them.

... we could deregulate and still uphold the public interest.

CM: Yes. The role of the regulator would become much less intrusive than it is at present. Thank you very much for this interview!

Colin Mayer is a Professor at the Said Business School at Oxford University and the author of many books.
A call for ownership alternatives
Albert Wenger

Albert Wenger is a partner at Union Square Ventures. Before joining USV, Albert was the president of del.icio.us through the company’s sale to Yahoo and an angel investor (Etsy, Tumblr). He previously founded or co-founded several companies, including a management consulting firm and an early hosted data analytics company. Albert graduated from Harvard College in economics and computer science and holds a Ph.D. in Information Technology from MIT.

At Union Square Ventures, network effects have been central to our investment thesis for a decade. From an investor perspective network, effects are one of the few, possibly the only, source of sustainable competitive advantage in a world where almost everything else can be copied quickly. But we also early on recognized that this has the potential for setting up a deep conflict between companies that operate networks and the participants in those networks: the value to shareholders can be increased through rent extraction from the network. And with many network effects companies reaching near monopoly status the potential for harmful rent extraction has grown. Harm can come in many forms, such as directing too much attention to commercial use or suppressing innovation.

One response to this problem of how to be a good steward of a network has been my advocacy for the Public Benefit Corporation. I participated in a session with Delaware legislators and spoke when the governor signed the PBC status bill into law.

Since then our portfolio companies Kickstarter and Human Dx have both converted to PBC status. Effectively in each case, they are making a commitment in their charter to be good stewards of their respective networks not just for the benefit of shareholders but for the benefit of all. But our exploration of alternative ownership structures for network effects businesses should not stop there.

I therefore strongly support the shareholder proposal to study alternative forms of ownership for Twitter. Here are four examples of ownership structures that could and should be examined:

Co-operatives.
These have played an important role in the creation of utilities of various kinds from grocery distribution to telephone networks. Generally the members contribute capital to build some piece of shared infrastructure.

Mutuals.
Insurance is inherently a network effects business and many insurance companies started out as mutuals. These are similar to co-operatives and may have membership fees but tend not to require an initial contribution of capital.

Steward-Ownership.
Companies can own themselves in whole or in part via a trust, club or foundation. This is an ownership structure that has been quite common historically in Europe. The role of the owning foundation tends to be to uphold the long-term purpose.

Decentralized.
With the invention of Blockchain Technology we may be able to unlock entirely new ownership structures, where there is no need for a central corporation at all and the network is directly owned by its participants.

We live in a time of great change due to the extraordinary new capabilities given to us by digital technologies. We should not be stuck in one model of corporate ownership. Now is the time to experiment!

Albert Wenger is a managing partner at Union Square Ventures, one of the ten most successful venture capital funds in the world and a forerunner of a "world after capital". As author, speaker, and investor, he addresses how the state, economy and social systems will and must change in the future.
Perspectives on steward-ownership

Photo source: Capital.de
“Much more experimentation is needed as well as an understanding of historic forms, which showed much more diversity than one would be led to believe from the current dominance of the singularly shareholder focused C Corporation.”

Albert Wenger
Succession with steward-ownership, a conversation with Thomas Bruch

Thomas Bruch is the CEO of the German company GLOBUS, which has been family-owned for five generations.

Markets: The Globus Group runs 46 self-service stores, 100 hardware stores, Globus Drive, and fridel market and restaurant in Germany. In addition, the group operates two hardware stores in Luxembourg and 25 hypermarkets in Russia and the Czech Republic. GLOBUS has 43,000 employees and an annual turnover of €7 billion. More than 10 years ago Thomas Bruch implemented an innovative ownership structure for Globus. The structure ensures that ownership is tied to active entrepreneurial roles, and that ability and values are the most important criteria for filling key leadership positions.

Armin Steuernagel (AS): Mr. Bruch, let’s talk about ownership. Who owns Globus?

Thomas Bruch (TB): My understanding is that Globus is self-owned. We have legally implemented this definition of ownership as well: The voting rights of the Globus Holding company cannot be inherited. Instead, through the foundation’s governance, they are passed on to people who have the necessary values and abilities.

To understand our ownership structure, you have to meet our people. They are the ones who share and support Globus. First and foremost it’s our employees, ten thousand of whom hold a silent investment in the company. At the same time, Globus is part of over 170 local communities with its regional operations. Our customers talk about “their Globus,” and our cooperations with local institutions in education or other parts of the public sector strengthen that bond.

AS: You’ve taken a very different approach to ownership. Ten years ago you officially changed your legal status to foundation ownership. Aren’t you breaking with a 200-year-old tradition of passing the company to the next generation of your family?

TB: What I inherited from my ancestors is the responsibility to ensure that the company continues to evolve and innovate, and I take that task seriously. It is not productive to just continue with the same approach as past generations. The company is a different organization than what it was forty years ago, when I started, and society has changed as well. Those changes must be taken into account. We need new paths into the future.

AS: Why don’t you just pass your shares on to your children?

TB: Naturally, the tradition in a family-owned business is something special, and growing into a company is a valuable experience. From a very young age, I witnessed how my father fulfilled his responsibilities in the business. He demonstrated what it meant to be an entrepreneur in good times and in bad. It is only possible to have those experiences when you are born into a company.

With three sons I faced the question of how to divide the shares in the company between them. At the same time, I was conscious of the fact that my children wouldn’t necessarily want futures at Globus. By placing my shares into a number of foundations, we have found a solution that leaves the option open for the next generation to take an active role in the business.

At the same time, it was important for us to make sure that abilities and values play a role in filling key positions. Decisions regarding those positions will be made by the board. In the end, the question is this: What is the key thing about being an entrepreneur? Is it the legal voting right to control the company? Or is it the potential to shape the company in the many ways an effective leadership role offers?
AS: Are there any other reasons for your decision?

TB: There is one more thing: What would happen if I left equal shares of the company to my children? Should I assume that they would act in concert on key decisions for the long-term? What if they have children of their own one day? I already have two grandchildren, and I am sure that there will be more. Does it make sense to continuously split the voting rights generation after generation? Would this not create a lot of potential for tension in the company?

When making this decision, I wanted what was best for the company. I came to the conclusion that a foundation structure or steward-ownership structure would work very well for us. It makes clear that the company has a value in itself: as a home to thousands of employees, for our customers, many of whom have been buying from us for two or three generations, for the society we are part of, and of course also for the family, which continues to have a close relationship to the company through the foundation structure.

AS: What exactly is special about your ownership structure?

TB: In my opinion, there are two aspects that make our ownership structure stand out: First, our foundation model ties ownership to entrepreneurship for the long-term. Voting rights will always be held by people who act as entrepreneurs. There is no room for so-called investors in this model. This tight connection between those who take on leadership roles in the organization seems fundamental to me. The second point is that ability and values play a key role in filling leadership positions. The board of our foundation decides who will take on significant responsibility for shaping the company.

AS: What is your position on the profits the company makes?

TB: At Globus, profits are not an end in and of themselves. They are the seeds for the future. They remain in the company to fund investments and development in many different areas. A portion of our profits goes to the non-profit Globus Foundation, which is used to address societal concerns.

AS: What were the challenges and considerations you had when implementing the structures you describe?

TB: There was a long decision process before we took this step. On one hand, I had long been thinking that Globus, as a company where employees and customers play a special part, should also have a special ownership structure. I had been thinking about a foundation model for some time. I had many conversations with our board where we developed these thoughts. It was all about creating some clarity about what it means to be entrepreneurial and what we could do to emphasize the role of entrepreneurship at Globus in a special way. In 2005 we reached a point of some clarity. That was the year when we implemented the structure we have today.

“At Globus, profits are not an end in and of themselves. They are the seeds for the future.”
AS: Your steward-ownership structure creates a special kind of responsibility. What do you consider to be the greatest advantages of that?

TB: I believe stewardship has an impact on how people take responsibility for the company's actions. It is immediately clear that what we do is not about portfolio management or maximizing personal gains. It is about the company itself and everything that belongs to it. Steward-ownership strengthens the focus on what the company needs for the long-term.

AS: Does this also affect how innovative the company can be?

TB: If innovation is to be successful it requires a lot of patience. Short-term profit orientation runs counter to innovation. At Globus we do not depend on quarterly reports. What matters for us is that what we do makes the company stronger for the long-term. This attitude creates investments that make it possible for great ideas to develop, even if they take a number of years.

AS: Do you believe that your ownership structure has a noticeable effect on the actions of Globus employees?

TB: I think that how employees identify with the company is crucial to achieving sustainable success. Do they identify with the company's products? Do they identify with the way people work together in the company? More and more people pay attention to how you answer those questions. More and more people want to know how your company takes responsibility for the environment and society. We took all this into account in developing our ownership structure. The way in which we live steward-ownership fosters individual responsibility and consideration for the whole organization. Living responsibility for people, nature, and the company - that is one of our core principles. We're told by customers that there's a special mood at Globus. This reflects the fact that we are simply different from many other businesses.

AS: Can you give us a concrete example of the way workers take responsibility for the company?

TB: Last year on a Saturday morning during the Christmas season we had a very busy day in one of our stores in St. Wendel. A few of our cashiers were ill, and the lines at checkout were especially long. One of our employees happened to be shopping there and saw what was going on, so she went inside, put on her uniform, and opened another register. Just like that - without asking anyone. To me, this demonstrates how special our employees are. They are aware of the importance and the meaning of what they do. They know that they and their personal efforts are needed. They are entrepreneurs within the organization, and they shape Globus for themselves, the community, and our customers. They feel the purpose of their work.
Key takeaways
The case studies, perspectives, and practical advice presented in this book explore the variety of ways that companies use steward-ownership to protect their mission and lasting independence. These entrepreneurs, companies, and investors demonstrate how steward-ownership can be a viable alternative to our prevailing cultural, legal, and economic definitions of “ownership”. Whereas the dominant model understands corporate ownership as an investment and a tool for generating personal wealth, steward-ownership views it as a duty or a responsibility, one that is passed on from one generation of able, mission-aligned stewards to the next. What’s more, steward-ownership fundamentally challenges what a company is, whom it serves, and why it exists. In doing so, it shifts the paradigm away from profit and shareholder value maximization towards a new economic model that prioritizes stewardship and “purpose maximization”.

Steward-ownership structures commit companies to three key principles:

1. **Economic and voting rights are separated.** How this principle is achieved varies across structures, but the core understanding is that a company’s direction should be decided based on what’s best for the long-term success and survival of its mission rather than the economic interests of individuals within the organization. Although separating voting rights from dividend rights may seem counterintuitive in the context of mainstream economic theory, behavioral economic research suggests that intrinsic motivation is a stronger, more reliable motivator than monetary incentives over the long-term.

2. **Stewardship is closely linked to the organization.** Stewardship is always passed on to individuals who are deeply connected to the operations or mission of a company. Whether current or former managers, employees, or industry leaders, stewards must have a deep understanding of an organization, including its mission, its operations, and its industry. This ensures that control of a company, i.e., its voting rights, remain with able individuals who are deeply connected to the values of the company. It keeps “entrepreneurship” within the businesses, rather than outsourcing it to external shareholders.

3. **Profits are not extracted.** Profits are primarily reinvested in these companies and not extracted by external shareholders. This enables steward-owned businesses to reinvest a substantial proportion of their profits in research and development.

These principles keep the underlying purpose of a company central to its operations. They ensure that generations of stewards can carry on the mission and values of an organization and protect its impact. Ownership in these companies represents accountability and the freedom to determine what’s best for the long-term survival of its mission. Such companies are not for sale, but are deliberately passed on to capable and value-aligned successors. As shown in this book, steward-owned companies are proven to be more successful over the long-term and to act in the interests of a broad range of stakeholders, including employees, consumers, investors and society.
Benefits of the long view

Without short-term pressure from financial markets and investors, steward-owned companies can take a long view on what is best for their business, their employees, and their stakeholders. This leads to more innovation, as companies are able to reinvest more of their earnings into research and development. For employees, it results in increased job security, better representation in corporate governance, and fairer pay, as well as a deeper intrinsic motivation to support the company’s mission. Employees also benefit from good governance and better management, which these structures facilitate. What’s more, partners and consumers benefit from the improved service of a company in which employees and managers feel connected to and directly responsible for its mission.

Why we need to rethink ownership

New ownership solutions are needed across the business landscape. From a small startup wanting to grow without losing control of its mission to a mature, profitable privately-owned business facing the challenge of succession, companies and their leaders need alternative ownership and financing solutions. They need legal structures that enshrine the principles of steward-ownership into their legal DNA and enable them to stay mission-driven for the long-term. They need patient, non-extractive capital that does not force them to sell controlling shares to external investors. Aligned investors support companies and keep control in the hands of their stewards, who are closely connected to their companies’ operations and values.

We need a new economic paradigm that places purpose rather than profit at the center of our economic activity. We need practical instruments for helping companies stay mission-driven and independent in order to fight the burgeoning trend of centralization of capital and market power. Steward-ownership can resolve the shortcomings of neoliberalism and its profit-maximization paradigm, while preserving the dynamic power of entrepreneurship and for-profit enterprise. It enables businesses to pursue purpose while acting in the interests of a broad range of stakeholders, from employees and consumers to the environment and society.

The companies, entrepreneurs, investors, and thought-leaders in this book represent the pioneers of a growing trend of self-governed companies and alternative financing. We hope this book serves as a source of inspiration and practical knowledge for all who want to support steward-ownership.
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About Purpose
Purpose is a network of organizations that serve a global community of entrepreneurs, investors, and citizens who believe companies should remain independent and purpose-driven over the long-term. Our mission is to make steward-ownership and alternative financing accessible to entrepreneurs, investors, and lawyers all over the world. Our projects include: developing new legal forms for steward-ownership, creating investment vehicles dedicated to supporting steward-owned companies, building supportive infrastructures for research and education, and working directly with companies on their paths to steward-ownership.

Our work

Our work combines non-profit research and infrastructural development with for-profit advising and investment activities. Our for-profit entities are structured as steward-owned companies, so no individual in the Purpose organization financially profits from our successes. Both of our investment vehicles are designed to keep capital costs low to ensure capital and services remain accessible for mission-driven companies.
Our #1 goal is to help companies transition to steward-ownership. Here’s how we do it:

**Research & Education**

There isn’t a mainstream conversation about the role of ownership in the economy - yet. We research and develop educational materials on the impact of steward-ownership on organizations, employees, and society. We share these findings and present stories of alternative ownership and investment at conferences and gatherings to promote awareness and understanding of steward-ownership.

**Network**

We bring entrepreneurs, companies, and investors together to talk about why they implement, invest in, and promote steward-ownership. As this network grows, it’s helping more companies and entrepreneurs on the path to alternative ownership. Our network of steward-owned companies collaborate, support, and benefit with and from each other.

**Infrastructure**

In many places it remains prohibitively expensive to become steward-owned. We develop open source legal and financial tools for founders and investors to make the process of becoming steward-owned easier and the costs more affordable.

**Hands-on support**

We work directly with companies on transitioning to steward-ownership. From small startups to companies with over 40 years of success, these companies are the pioneers of the steward-ownership movement.

**Investment**

Steward-owned companies need alternatives to traditional VC, private equity, and exits. We realized there isn’t enough capital in the system to support these businesses, so we set up two funds that invest exclusively in steward-owned companies: (1) Purpose Ventures and (2) Purpose Evergreen Capital, which enables buy-outs of early or non-aligned investors, finances succession processes, and helps companies set up steward-ownership structures.

Our goal with PEC and Purpose Ventures is to leverage our resources to bring other more traditional investors to the table, to make them familiar with the philosophy of steward-ownership, and to lower the barrier for them to invest on steward-ownership-compatible financing terms.
“When we were trying to figure out a structure for Ghost, Purpose didn’t exist - and we certainly weren’t aware of any other companies who worked this way! Without any support or experience to lean on, the path we took to success was longer and more painful than we could have imagined. Eventually other founders, inspired by our structure, would ask how they could follow in our footsteps, and I would have to tell them ‘It’s far too expensive and time intensive for a young business to deal with all of this, we barely made it, so you should probably just focus on your product’. It’s critically important for the world that organizations like Purpose exist to educate and support young entrepreneurs whose potential to build a better future might otherwise go unrealized.”

John O’Nolan

the founder of Ghost.org