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# ECONOMY WITH PURPOSE

Photos *by* Marzena Skubatz









# MAIKE KAUFFMANN & CHRISTOPH BIETZ

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Companies in steward-ownership are mastering a major step: they are realigning the structures, incentives and ambitions of business.

Business can be done differently. What would happen if shareholder value were no longer in the foreground, but responsibility and a sense of purpose? If companies looked not at short-term profits, but much further into the future? If employees knew that they are working for a purpose—and not for shareholders? The Hamburg-based Purpose Foundation supports companies that want to move in this direction—by rethinking how companies are organised on the ownership level. We spoke with Maike Kauffmann, Research + Think Tank, and Christoph Bietz, Communications, of the Purpose Foundation, about different forms of entrepreneurship and how steward-ownership can be an alternative business form for purpose-driven companies. What's behind this idea? And what challenges do these companies face?



The Purpose Foundation helps companies with a profound, structural change: the conversion to steward-ownership. What exactly is this about?

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*Steward-ownership is a corporate ownership structure based on anchoring two principles in the legal structure of a business — in its DNA, so to speak. The first is the principle of self-determination; those who hold the voting shares in the company, and thus exercise control, are always people who are connected to the company. The second principle sees profit as a means to an end, not as an end in itself. This implies that the value of the company, the company assets and the profits made cannot be extracted by the shareholders for their private needs. They remain in the company, are reinvested, set aside or donated, but not distributed to shareholders.*

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That means that instead of focusing on shareholder value, as common business forms often do, steward-ownership is all about creating value for all stakeholders involved with the company. Profits serve the company and its purpose, and this concerns not only the owners, but also the employees and customers. In this context, it is crucial that the very mission of the company is brought back into the centre. The company's purpose is the goal — not only an increase in assets. Every company wants to solve some societal problem; every company's mission is embedded in a larger social and ecological context. Steward-ownership is about the meaning and purpose for which a company exists.

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In many companies, management changes every few years, often jumping from one industry sector to the next. Is this what is to be avoided?

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*Traditionally, we often see company structures with absentee owners, people who are holding and exercising control over the company, but are very far away and actually only regard the company as an investment. And the managers on the other side need to answer to these owners and have to make sure that the figures are right in order not to be dismissed. But nobody looks at where the company is heading in the long term, nobody really feels responsible for what is going on in the company. There is a 'vacuum of responsibility'.*

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At this point it is important not to create false expectations: Steward-ownership does not mean asceticism. Of course, the company must operate, act and think in an entrepreneurial way. Investors can invest their money in steward-owned companies — and gain fair returns. But they will not get any voting shares, as this would contradict the principle of self-determination. Also, founders, owners and employees can and should receive good salaries. Of course, a steward-owned company still has an interest in increasing profits, not for personal purposes, but for the purpose of the company. Surplus profits will not be distributed among the owners. Instead they can, say, go to charitable purposes. At Berlin-based search engine Ecosia, for example,

80 per cent of profits are invested in planting trees worldwide. That is the main purpose and focus of the company.

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What does this change for the employees?

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A lot, I would say. Working in a steward-owned company provides you with a legally binding promise that you'll always be working for a purpose, not for the personal benefit of the owners. This can also lead to greater self-efficacy: to realise that I contribute to something as an employee which creates value and fulfils a purpose. Also, steward-ownership is often accompanied by considerations of co-determination and a fair salary structure. At Einhorn, for instance, a company that offers sustainable hygiene products, the lowest salary may not be less than one-third of the highest salary.

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*Generally, research shows that salaries are higher in companies with steward-ownership. Of course, this always depends on the company and its situation; but we often see higher transparency and co-determination in conversations about salaries in steward-owned companies. However, the change in motivation and identification is much more striking in my view. Employees at companies like Ecosia or Waschbär work for the idea, for the purpose of their company. They know that if they bring an idea to the table, it can be turned into something that benefits everyone instead of creating val-*

*ue merely for shareholders. This allows them to identify with the company in a completely different way.*

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The concept of steward-ownership is not only interesting for young startups, but also for long-established family businesses. What do they expect from it?

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Steward-ownership enables economic sustainability. That is of huge importance to family businesses because they are oriented towards the long term. On the current legal basis, they are passed on by inheritance; there is no alternative except selling the company. So blood and money lead the way. But if you do not want that and there is also no family member who wants to take over, you have a problem. For instance, if a director wants to pass the business on to a well-deserving employee, that employee would have to buy it and get into heavy debt. And that, of course, puts a strain on the company. With steward-ownership, the assets are tied to the company, so you can pass on your shares: to employees or others who are connected to the company.

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Succession planning thus involves not only family members, but also people from the outside to find the person best suited for the job. This also secures the existence of the company.

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*Absolutely, more and more family businesses are struggling with succession problems. There is not always a capable successor to be found in the family. Or the children may want to take a different path instead of taking over the business. Family businesses nevertheless want to be able to carry on the values they have lived over generations. In this case, steward-ownership presents a real alternative. It is possible to hand over a business to a person in the family, or, for instance, to appoint one or several employees as owners of the business. There is an enormous amount of interest and support for the topic in the business community.*

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What is the legal situation? Can steward-ownership be implemented within existing structures?

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Current company law does not include this kind of ownership. It is assumed that any kind of company belongs to the owners with all its assets. As the owner of a company, I can sell it at any time, either as a whole or in shares, and, strictly speaking, the profits are all mine. Of course any company is free to practise the values of steward-ownership. In the case of a limited-liability company, you could add a clause to the articles of association saying that profits must always remain in the company and cannot be distributed. The crux of the matter, however, is that the shareholders can change those articles of association at any time.



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How can the matter be resolved?

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Larger companies can solve this issue with the help of foundation structures. One example is the German technology company, Bosch, which has set up two entities. It took almost 20 years to implement this restructuring—involving many lawyers. However, most companies which are interested in a transition to steward-ownership are much smaller. For them, a foundation structure would be far too elaborate and costly. At Purpose, we

have found a sort of legal hack that sets out the principles of steward-ownership as binding provisions in the DNA of the company. With this, it is no longer possible to say in future: Oh, we've changed our minds and want to sell the company after all.

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As the current legal structures are not yet effective, how does your legal hack work?

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We call it the *veto-share model*. If companies decide to become steward-owned and want to work

with Purpose in order to get there, they can hand one per cent of their shares to the Purpose Foundation. This provides the Foundation with a veto right. We will then veto any changes affecting the principles and regulations of steward-ownership. But this still involves us as an active player in order to safeguard the principles and is, obviously, complicated to explain. So there is a great need for a new legal form. It would make the implementation of steward-ownership much simpler and more transparent—as simple as setting up a limited-liability company. This is being discussed at the political level at the moment. It is also a subject in the current coalition negotiations for the new German government.

**MAIKE KAUFFMANN**

*Maike Kauffmann is responsible for Purpose's research and think-tank work. She joined the organisation in 2019. With a background in business and ecological economics, she is particularly interested in the role of companies in our economy and society and in finding ways to leverage the positive power of entrepreneurship to solve societal problems. Before she joined Purpose, she worked in another steward-owned company as well as in a state-owned organisation.*

**CHRISTOPH BIETZ**

*Dr Christoph Bietz joined Purpose in 2020 as Head of Communications at the Purpose Foundation. Before that, he spent about 15 years as a TV journalist, latterly for the German political talk show ANNE WILL in Berlin. Christoph Bietz studied Media Science at the University of Cologne and gained his doctorate with a dissertation in the field of interdisciplinary and transmedia narrative theory.*

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What are the challenges to be solved in the future?

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There are three big issues that we still have to tackle. One is the language and narratives around entrepreneurship. Many entrepreneurs do not even know they can structure their companies in this way! Currently, what we perceive as success stories of companies are often directly linked to 'unicorns' and their exits. In contexts or circles outside the entrepreneurial world, entrepreneurs are often perceived as people who primarily care about their own economic profits and cannot be motivated otherwise. But there are so many entrepreneurs whose reality is quite different, and who found and operate companies out of a completely different motivation, who aim to build long-term purpose-driven companies. The fact that different motivations, ownership models and approaches exist is exactly what needs to be communicated more in order

to change the image in people's minds. The second hurdle concerns the legal structures, as already pointed out. A new and appropriate legal form would help out a lot! But this also means that lawyers, tax advisors and notaries need to become more familiar with steward-ownership—because they, too, are only familiar with the classic corporate structures. If you go to a lawyer and say you want to set up a company in steward-ownership, nine out of ten will have no idea what you are talking about.

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And the third point?

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This is the area where we still have the most work to do: finding aligned capital that works within the context of steward-ownership. In our investment world, we are very attuned to the paradigm that money equals power. The more money I give as an investor, the more voting shares I get. In steward-ownership, this is no longer possible. But of course,

most steward-owned companies naturally need financing and investments too. Luckily, there are also more and more investors who are interested in, or already use, alternatives from the current VC investments. But here, too, it is necessary to overcome the usual thought patterns and narratives.

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Purpose is a network organization that works on addressing these problems and issues in our various different activities. For example, there is the Purpose Foundation, for which Maike and I work. It's a non-profit organisation with the mission of informing people out there about steward-ownership—and making it easier for companies to transition. We have just published a magazine and a workbook. The magazine focuses on informing and inspiring anyone interested in the topic, while the workbook was set up particularly for entrepreneurs; they can work through it on their own to explore whether they want to found or transition their company to steward-ownership.





Steward-ownership is not just about shareholder value, but about the good of everyone involved with the company.

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What other activities are there in your network organisation?

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We also support companies in their transition to steward-ownership by providing hands-on support and advice. And then there are our investment activities, with Purpose Ventures for financing steward-owned startups and Purpose Evergreen Capital for financing more mature companies in their transition to steward-ownership. Both entities function as financing vehicles that work together with like-minded investors. Together, they want to invest differently. The crucial distinction from say, VC investments is that investors do not get voting shares for their investments and thus cannot control the decisions of the company. Otherwise we would be back to the old scheme of profit interests. What they do get, of course, are fair returns.

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What are the tasks of these two organisations, which have activated an investment capital of around 250 million euros?

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*Purpose Ventures and Purpose Evergreen Capital are both in steward-ownership. They exist for two reasons: firstly, because there is not yet enough aligned capital for steward-owned companies, so they give the new generation financial impetus. But above all, they are there to showcase and create experiences for investors*

*and startups alike, pointing out that it is possible to do investments differently. For each investment, they take on co-investors to demonstrate how an investment can be structured in an unconventional way.*

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How do the classical investment funds react to this?

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*We are experiencing great interest, especially now that Purpose and steward-ownership has been getting more attention from the media. With traditional venture capital only working for one to two per cent of today's startups, of course the funds realise that what they have to offer still provides insufficient options for the large majority of startups. But they often lack other tools and instruments, and want to learn from us and others who are already investing with alternative forms of financing. In the past year, but especially in the last six months, it has been really great to see the kind of big investment funds that are approaching us. To us, this not only confirms the success of our work so far, but makes us optimistic that changing the current status quo is possible.*

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Thank you very much for your time, Maïke and Christoph.