Adrian Hensen aims to make the steward-ownership concept better known among relevant stakeholders such as company owners, consultants, and investors

Steward-ownership: join the 'economic avant-garde' and make a real impact

Photo: Purpose

Described recently as the "economic avant-garde" by Frank-Walter Steinmeier, the federal president of Germany, steward-ownership is gaining ground among companies seeking to have a positive impact on the world. To protect their mission and ensure they can focus on their impact, entrepreneurs and family business owners are turning away from traditional absentee ownership and shareholder value primacy. In an interview with **Bryony Jansen-van Tuyll**, Adrian Hensen, Co-founder of the Purpose Foundation, explains how the model of steward-ownership equips businesses to deliver positive change

What is steward-ownership and how does it differ from other corporate ownership models?
My background is in business and psychology, so let me explain from a psychology perspective. That requires looking at a company as a human. If a person would like to improve their lifestyle, they can put in place new programs for sports and diet, for example. These might make a difference for a while. Yet, to bring about significant improvement over the long term, a person must first identify and address the underlying drivers of their behavior – the root cause.

In the same way, companies are limited in how much they can benefit society by the underlying structure of a company: ownership. Ownership is a bundle of different rights, including profit rights and voting rights. Owners, holding the rights to both money and power, determine the direction of travel a CEO can take.

Steward-ownership is an ownership structure that decouples profit rights and voting rights to enable a company to prioritize long-term purpose over short-term profits by legally enshrining the two following principles:

Firstly, steward-owned companies ensure the value generated through the company always serves the company. This could mean reinvesting in the company, paying better wages, or paying off capital costs. Profit is a means to support the purpose rather than a goal in itself. We call this the "Principle of Purpose-Orientation".

The second principle ensures that the power in the company always stays with people who are closely connected to the company: the stewards who protect the mission and operations. We call this the "Principle of Self-Determination".

These principles are not merely taglines but are legally locked into the DNA of a company, enabling it to pursue its purpose and maximize impact.

What kind of legal governance structures can steward-ownership take?
There are different forms. We have some companies that have foundation structures, with a single foundation owning a company, or double foundation structures. Bosch, for example, has a double foundation structure. You also have trust models such as the "perpetual purpose trust" in the US. That is the model that outdoor brand Patagonia chose. In other cases, we also have something we call a "golden share" model whereby an external organization ensures that the principles are legally locked. Search engine Ecosia has adopted this model.

As you can see, there is not one specific governance structure – it depends on the company, its resources, and the legal possibilities of the country where the company is based (See box on Page 33).

Which types of companies are adopting steward-ownership, and why?
We see three main types. The first are family-owned businesses. Patagonia's founder, for example, decided that instead of ceding the company to the second generation, he would transfer ownership to a "perpetual purpose trust" that would protect the company's mission. We see other family-owned businesses, sometimes fifth- or sixth-generation businesses that choose to go down this route, too. They want to make sure that the company will continue pursuing its course in the long term, whether this is providing employment to the region they are connected to or pursuing the mission of the company. Steward-ownership provides a legal model that protects purpose orientation and the company's values in the long run.

The second group we see are companies that seek a coherent structure to support what they are doing. Their management style is already based on certain values, and they have a strong mission. These companies realize that there is a mismatch between their ownership structure and the way they would like to drive their company. Dutch mental healthcare company BuurtzorgT, for example, successfully took this route.

Finally, we have companies that are purpose-oriented impact companies such as social enterprises or "zebra" companies that combine profit and social goals. Some companies we work with combine all three of these attributes: they are family-owned, already with a strong mission, and impact driven.

You are in touch with managers from many steward-owned companies. What benefits do they see in their day-to-day operations?
The first benefit is how their employees relate to the company in terms of motivation and eagerness to support the mission. This is extremely valuable, especially today with labor shortages in many sectors. Secondly, the companies see the advantage of being able to focus on the long-term rather than having to focus on quarterly results. Thirdly, they build stronger relationships with their customers as they are, »

in effect, making a binding promise to them that they use their profits to pursue their mission. Investors also see benefits because they know that the company is planning for the long term and there is clarity of direction. And finally, the companies see that they get a lot of trust from their various partners and a willingness to collaborate.

What are the main challenges for those who would like to embark on a journey towards steward-ownership?
I would love steward-ownership to become the norm to better address the challenges we, as a society, face today. But it is not our goal to make all businesses steward-owned. Right now, corporate ownership is like a monoculture. At school, university, and throughout the workforce, people are primarily exposed to legal forms and financial set-ups that are based on shareholders seeking to maximize returns. With our organization, we are seeking to build a more diverse ecosystem and culture of corporate ownership.

And yes, there are still challenges. Firstly, the concept is not known enough among relevant stakeholders, such as company owners, lawyers, consultants, accelerators, investors, and politicians. A decade ago, even though there were companies that had alternative ownership structures, there was not even a common term for the concept. Today, we have a name and language to describe what it is. But we still need to raise awareness.

'We are seeking to build a more diverse ecosystem and culture of corporate ownership'

The second challenge lies in the complexity of setting up an alternative structure. Because it is not the norm, there are no obvious and easy legal forms for companies to take on. That is why we support an initiative here in Germany that is lobbying for a new legal form for steward-ownership. We also provide open-source templates that companies can use freely. While 10 years ago it could cost a company up to €500,000 ($535,000) in consultant and legal fees to set up a steward-owned company, today we have managed to bring that down to about €5,000 in certain legislative areas. But even with those solutions, it's still more complicated and expensive than other ownership forms – it shouldn't be that way.

The final main challenge is the lack of awareness among investors. We need to enable, inspire, and educate them on how to invest in a steward-owned business. If we lower these hurdles, steward-ownership will be able to bloom and have a huge positive impact on society and the planet.

Most companies require external investment to get off the ground, scale their activities, or develop new products. How can steward-owned companies attract the investment they need without having to sell shares?

Frank-Walter Steinmeier, the federal president of Germany, talks about the 'economic avant-garde' at the Day of Steward-Ownership event in Berlin in October

Photo: Anna Wyszomierska

It's not that complicated. The most important aspect is that you must be willing to answer the questions: "How much do I need to get out of this investment? And how much is enough?" Also, investors have to be open to the considerations like: who should have power and why? Through non-voting and certain co-determination rights, they will be kept up to date and involved, but the power over the company lies with the entrepreneurs, the stewards of the company. Of course, they will receive agreed dividends over time, as for any investments. The key is clarity and transparency for both the company and the investor.

Who are the main parties investing in steward-owned companies? What are their goals and expected returns?
Although we have seen some philanthropists, we mainly talk to impact investors or conventional investors. At our last event, we brought together family offices, private individuals, wealth holders, and some banks. These investors seek to support companies with a mission. They also seek investment returns. Yet, as mentioned before, they need to ask themselves upfront: "How much is enough?" The return levels they will get, as well as the timeframe, are agreed upfront, with a certain degree of flexibility. Technically, it can be structured as mezzanine instruments, as debt, equity, a combination of those, or another form. It's about being honest and fair up front. What fair is, in the end, is a conversation between the interested parties on both sides.

If a company makes more profits than they had expected, the company can decide to give back higher dividends to the investors to cover capital costs faster, or they could decide to invest in higher wages. This is in the hands of the stewards who take the long-term perspective for the benefit of the company, along the chosen lines of governance.

In the "open materials" section of our website (www.purpose-economy.org), you can find an open content case study we published outlining how steward-owned startup Vyld designed its financing structure and closed two financing rounds.

A cynical person might argue that structures like foundations are often set up for tax evasion or to allow people to enrich themselves.
This is true and shows it is highly relevant to look at the exact legal structures. There are many different types of foundation-ownership structures. If steward-ownership is set up correctly, it will not and cannot be used for tax benefits. I mean, current owners moving toward steward-ownership, like Yvon Chouinard of Patagonia, are personally giving away the complete value of the company in the service of the company's long-term purpose-orientation and society. There is no personal financial extra in this for them.

Looking ahead, how do you think the steward-ownership movement will develop?
Let me start by describing what I see today: that the movement is gaining a lot of momentum. We have been pushing steward-ownership for about eight years. We saw more and more companies taking on this type of ownership, and then, Patagonia became another big lighthouse case. Now we see the German government willing to introduce an official legal form for steward ownership and Germany's President acknowledging the concept. We see other changemaker organizations picking it up in different regions ranging from Uganda to Latin America.

Steward-ownership has been in a bubble. The bubble is growing, but it still needs help to come out of the bubble. We need to give it the means and resources to do that. We need more forerunner companies, case studies, people doing research, educating, and inspiring others. We need forerunner investors and governments that can push through legal changes and provide grants.

We also need to change the narrative about ownership and launch discussions about the role of companies in society. It would be great if steward-ownership was taught in every school and university. All of this would make it easier for companies and investors to make a conscious and intentional decision about the "how" in addition to the "what" of a company. How is a company owned, how is it capitalized, and is this in service of the "what" and the purpose of the company? I hope that the monoculture of investments and company structures will be further enriched in the future, creating a diverse ecosystem in service of people, planet, and society. ■

Adrian Hensen is co-founder of Purpose (www.purpose-economy.org), an organization seeking to promote steward-ownership and support entrepreneurs, business leaders, investors, and politicians interested in adopting steward-ownership.

Bryony Jansen-van Tuyll is a senior research writer on sustainability at IMD. Previously, she worked as a management consultant, supporting companies in their growth strategies, before specializing in sustainable innovation. She has founded and run non-profit organizations aimed at knowledge sharing around sustainable business, connecting with experts and entrepreneurs who are developing novel business models and systems.

Steward-ownership models: how they work in practice

DOUBLE FOUNDATION
This model legally separates money and power: one entity holds the control rights, with its managers acting as stewards for the company. Another, charitable, organization holds the economic rights and shares of the company.
Examples: Bosch (Germany), Globus (Germany).

SINGLE FOUNDATION
All voting and economic rights are held by a self-governing non-profit foundation. It acts as a shareholder and guardian of the steward-ownership structure and principles.
Examples: Novo Nordisk (Denmark), Zeiss (Germany), Carlsberg (Denmark), Märkisches Landbrot (Germany), Elobau (Germany).

VETO SHARE
The guiding principles of steward-ownership are included in the company's articles of association. The steward-owners of the company hold 99% of the control rights, but no economic rights. 1% of the control rights, the so-called "veto-share" or "golden-share", is held by an independent non-profit entity. It has the right to veto any article changes or actions affecting the principles of steward-ownership. The economic rights remain within the company or can be given to investors or founders – but only to a limited extent.
Examples: Ecosia (Germany), Sharetribe (Finland), Wildplastic (Germany).

PERPETUAL PURPOSE TRUST
Increasingly seen in the US, a perpetual purpose trust (PPT) is set up for the benefit of a purpose rather than a person and can operate indefinitely. It holds the shares of the company. The trustees (i.e., steward-owners) control the PPT, but cannot extract the value or profits of the company.
Examples: Organically Grown Company (US), Firebrand Artisan Breads (US).

EMPLOYEE OWNERSHIP TRUST
Gaining traction in the UK, under this model the shares of the company are held by an employee ownership trust, meaning the company is indirectly controlled by its employees. If the employees only have limited access to dividends, the setup corresponds with the principles of steward-ownership.
Example: John Lewis Partnership (UK).
(Source: Purpose)