

THE NEED FOR MULTI-STAKEHOLDER OWNERSHIP

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The third installment in a series on an Altruistic Stakeholder-Managed Economy; this article considers how stakeholders might involve themselves in social financing to create new ownership models. Tying theory to some already-existing or emerging initiatives, Robert Karp envisions how social financing organizations could aid new and existing farmers in a variety of ways. This positive vision argues that we need not be limited by our existing mechanisms, that we can create new and better means of training and supporting our farmers.

In the previous installment I pointed to the emergence and need for new kinds of financial entities that work in partnership with businesses and other stakeholders to ensure a healthy circulation of capital in society. In this section I would like to show how, through partnerships between these social financial entities and the businesses and farms with which they work, there could emerge new types of ownership structures in our movement that would, among other things, encourage investors to practice the kind of social finance described previously. For just as our economy in the areas of finance and trade could be managed cooperatively by its diverse stakeholders, so too could the individual businesses that make up the economy be increasingly owned and governed by their diverse stakeholders. What exactly would this look like?

Here we arrive at one of the great conundrums that has continually plagued our society—how to fashion forms of ownership that honor the important roles of the individual entrepreneur and the investor without losing sight of the equally important roles of other stakeholders, such as workers, farmers, and consumers, as well as the wider community or “commons” in which a business is situated and on which it depends. At the present, our ownership models tend to place all power and control either:

- In the hands of entrepreneurs and/or investors through traditional corporation, partnership, or sole proprietorship ownership forms;
- In the hands of one particular group of stakeholders, (*i.e.* farmers, workers, consumers, etc.) via the cooperative ownership model; or
- In the hands of the community, as it were, through non-profit ownership of revenue-generating activities.

What we need, however, and what I believe is trying to emerge in our movement, are forms of multi-stakeholder ownership and governance that leverage the best features of all three of these approaches. The truth is that all these stakeholders—individual entrepreneurs, investors, workers, consumers, cooperating businesses, and organizations that represent the wider interests of the community—have an important role in every business venture. What exactly would such a business entity look like?

To illustrate, let us imagine a particular community where

some enterprising individuals have the desire and see the need and opportunity to start a natural food store. Currently, these individuals have pretty much two choices. They can, on the one hand, if they are capable, write a business plan, raise the money, and start a private enterprise, in which case they (along with any partners or investors they have brought in) become the sole beneficiaries of the financial gain of the business. They also become the sole risk takers in the case of a failed venture. Their second choice is to find a larger group of people who also want to see the community have a natural food store. With these people they can put in hundreds of volunteer hours forming a member-owned natural food store and perhaps, eventually, become the founding managers. Or they could then simply walk away and feel good about having brought into being a new consumer-owned business.

Multi-stakeholder ownership, however, offers a third possibility—namely that our enterprising individuals partner with one or more other stakeholders (consumers, suppliers, a non-profit Social Finance Organization) to start a store in which all have a part in the ownership and/or governance of the enterprise. Imagine, for example, that our enterprising individuals partner with a local Social Finance Organization (SFO) that has pooled financial resources from the local community in order to help start the store. What could emerge from this partnership is a business in which ownership is shared between our individual entrepreneurs and the SFO.

The beauty of this arrangement is that, by maintaining an ownership stake and a board role, the SFO could a) ensure that, over time, some portion of the surplus value arising from the business goes directly back into helping other ventures in the community get started or grow; b) provide technical assistance, via a board seat, to support the growth of the business; and c) maintain the right to have a say in any decisions that pertain to the sale of the business. In a sense, the SFO could become a real partner in the enterprise, as well as a kind of guardian of the mission of the business over the long haul should any of its other owners become tempted to sell the business in a fashion that would compromise its values or the community’s investment.

By maintaining a strong ownership stake for the founder/manager, however, one is also protecting the entrepreneurial spirit of the enterprise, the wisdom and commitment that comes from individual initiative, as well as acknowledging the hundreds of “volunteer hours” and sleepless nights that always go into starting and running a successful business or initiative of any kind. Often, our most idealistic organizations (cooperatives and non-profit organizations) take this kind of idealistic volunteerism and commitment for granted. The result is burn-out of social sector leaders who then channel their creativity into less idealistic ventures so that they can make a living or have more creative freedom.

Such a business could also make provision for an ownership and/or governance role among other stakeholders, such as consumers, workers, or suppliers. As fanciful as this idea may seem, I am pleased to report that at the time of this writing there are to my knowledge at least three successful natural food stores or buying clubs organized as multi-stakeholder co-ops in North America,¹ and I believe we can expect many others in the

future—particularly among cooperatives of all kinds, which may find this idea to be a logical next step, philosophically speaking.

Alternatively, imagine a community supported agriculture (CSA) farm that is owned by a multi-stakeholder co-op consisting of a farmer, consumer investors, and a local non-profit organization, community foundation, or SFO. The farmer could have a lifetime lease on the land that could even be transferable to his or her children, provided they remain committed to the ideals of the cooperative farm. The consumers could sell their shares to others when they leave the area. And the non-profit could provide ongoing technical assistance and serve as a conduit for ongoing donations and grants to support educational activities on the farm.

Multi-stakeholder ownership forms provide many points of flexibility that can suit a wide variety of needs and companies. For example, not all stakeholders need to be given board seats or the same number of board seats. For example, in the case of the hypothetical natural food store described above, it may in a given situation create too much of a conflict of interest to give supplier members board seats. But it would make sense to give them an ownership stake. Conversely, certain stakeholders might have board seats even if their capital investment is small or non-existent. For example, a food company that has adopted a certain non-profit or community to which it makes ongoing charitable gifts might create a board seat specifically for a community stakeholder.

Furthermore, percentage of ownership share in such an entity does not have to correlate to certain kinds of management rights. For example, in our imaginary natural food store, the SFO could maintain veto rights over any proposed sale of the business while giving up any actual ownership, thus choosing to treat the original financial investment as a loan rather than as an equity investment.

Indeed, ownership share need not be correlated to dividend share either. For example, in our imaginary CSA farm, while the consumer members may own fully 75% of the co-op and have a corresponding percentage of board seats, they and the non-profit investor owner may establish the co-op in such a way that any dividends that would ever accrue to them are automatically put into the co-op's reserve fund for the upkeep of the farm or for the purchasing of additional land.

As complex as all this may seem, the point is simply to show that the unique character of any circumstance and set of players offers a variety of ways to work toward creating a forum within individual businesses, farms, and enterprises where the unique gifts and perspectives of different stakeholders can come together, complement one another, and find common ground. While Rudolf Steiner did not speak of multi-stakeholder ownership quite along these lines, he did point to the need to find a way to balance individual freedom and initiative in the economic life with the community's need to have a role in ensuring that the means of production are not misused and can be placed in the best person's hands at any given time. Steiner spoke of this as follows:

One sees that in society two things are bound together which have quite different significance for the social

organism: the free disposition over the capital base . . . and the legal relationship through which he who exercises this disposition, by means of his right of disposition, precludes others from the free utilization of this capital base . . . It is not the original free disposition that leads to social damage, but only the prolongation of the right of disposition when the appropriate conditions which connect individual human abilities to this disposition have ceased to exist.²

In other words, the problem with modern capitalism is not that individual entrepreneurs and their investors gain the right to freely make use of physical, financial, and intellectual capital for economic purposes. The problem is that, through these rights, they also gain a form of legal ownership of these assets in perpetuity. This form of ownership, in turn, prevents the larger community from having any say in to whom these rights shall be passed when the original entrepreneurs are no longer interested in the business or are no longer serving the best interests of the community. Steiner continues:

The possibility of free disposition over the capital base through individual abilities must exist; it must be possible to change the property rights [however] as soon as they become a means for the unjustified acquisition of power. We do have a facility in our time which partially fulfills this requirement in respect of so-called intellectual property. After a certain time after its creator's death, it becomes community property. This corresponds to a truly social way of thinking. Closely as the creation of a purely intellectual property is bound to an individual's talents, it is at the same time a product of society and must, at the right moment, be handed over to this society. It is no different with respect to other property.³

What I am suggesting here, then, is that multi-stakeholder ownership may provide the possibility, within the constraints of our present-day legal and economic environment, of beginning to find a healthier relationship between individual initiative and community stewardship. Through this balance, the possibility arises of wisely stewarding and keeping in healthy circulation the physical capital of society, just as earlier I described the need to wisely steward and keep in healthy circulation financial capital.

To clarify these ideas further, it may be helpful to describe how the process of multi-stakeholder ownership might arise through the initiative of a small SFO rather than through the initiative of an entrepreneur, company, or farmer, as in the above examples.

Let us imagine a number of individuals and stakeholder groups in a small rural region who come together with the desire to strengthen their local economy, with a special focus on sustainable development related to food and farming. And let us say that this group has identified a number of key things that would be needed to foster a vital food economy in their region—such as a small meat processing plant, more farmers and more farmland available for sustainable production, a bakery/cafe, etc. Now let

us imagine that this group takes the step of forming an SFO and that they eventually succeed in creating a pool of capital from a variety of sources—local individuals and institutional investors, local businesses, larger regional banks and financial institutions, local and regional community foundations, etc.

Let us now imagine that the first priority of the SFO, because of already existing markets and needs, is to start up a now defunct local meat locker. This SFO is now in a position to approach this project in a very unique way that could both accomplish its goal of economic development as well as ensure the wise use of its limited pool of capital. For example, it could seek an entrepreneur to own and run the meat processing plant in partnership with the SFO through a shared ownership arrangement. There are several ways this could work:

1. In one model, an LLC, partnership or share corporation would be formed with ownership shared by the SFO and the entrepreneur. The SFO would purchase the meat locker, capitalize the improvements, and provide business planning and other forms of technical assistance to the entrepreneur. Unlike a typical venture capital arrangement, the SFO would structure this partnership in a fashion that would allow the entrepreneur to gain more and more ownership share over time. The SFO would likely always remain a partner, however, in order a) to ensure that a portion of the net profits, once the business is established and successful, go to serve other new ventures in the community and b) to maintain a say in any proposed sale of the business to ensure that it is in the best interests of the community.
2. Alternatively, the SFO could, after purchasing and improving the meat locker, simply sell the meat locker to the entrepreneur while maintaining ownership of the land under the meat locker, which it would lease to the entrepreneur along with an agreement that the lessor

shall have the right to veto any proposed sale of the business that it feels would not be in the best interests of the community. Such a lease could even include other social benefit stipulations, such as a role for worker ownership in the business or certain environmental practices.

Clearly, in our complex legal world we can imagine many ways to structure these types of multi-stakeholder ownership relationships, but whichever method were adopted, the goal would always be the same, namely that a portion of physical and/or social capital represented by the meat locker be held in trust by the local community through the SFO at the same time that it is freely deployed by an entrepreneur to create economic opportunities for the local community.

A very similar approach to this has proven to be highly effective in the housing sector through Community Land Trusts (CLTs). These are non-profit organizations that purchase or build homes or housing developments, retain ownership of the land beneath and around the homes as a community asset, and sell the homes to buyers along with a ninety-nine-year lease agreement on the land. These lease agreements, in turn, include a limited equity formula that ensures that the home, upon resale, will remain in the affordable housing market. This creates a win-win situation wherein homeowners are able to purchase homes well below the usual cost because the price of the land is not factored in; the local community gains permanent, affordable housing; and the investors, lenders, and donors to the CLT see their capital stewarded extremely prudently. The local community also gains a measure of inflation protection because the homeowner, upon sale, gains a profit that is actually connected to his or her improvements to the home, rather than to the ongoing inflation in capital values. There are now more than 100 successful CLTs throughout the country with an incredible track record of demonstrating the benefits of multi-stakeholder ownership with regard to housing.⁴



The SFO could adopt a similar approach with regard to its need for farmers and farmland. For example, the SFO could form, and be a member of, a Cooperative Conservation Land Trust organized through one of the new LLC/co-op hybrid statutes that several states have pioneered.⁵ It could then acquire farmland and place it in the trust, which would in turn provide long-term leases to farmers, who would also become members of the conservation co-op along with the SFO itself. Through this effort, the SFO could draw enterprising farmers to its region through affordable land costs while also ensuring the long-term social benefit of its investment by holding the land in trust in perpetuity, and through conservation easements and lease agreements that stipulate a commitment to sustainable farming practices. This innovative model has been researched and analyzed by the North Country Cooperative Development Fund and is being seriously considered by at least one land trust known to the author.⁶

MULTI-STAKEHOLDER OWNERSHIP AND THE COMMONS

While multi-stakeholder ownership need not include a role for an SFO or other non-profit along the lines described here, I have emphasized the potential for this role because of the way in which it provides a means to resolve, within the microcosm of an individual business, one of the greatest problems with modern capitalism. That is the inherent tendency of capital to become detached from the social, cultural, and environmental assets in which it is embedded—the commons or the commonwealth. As the idea of the commons is growing in significance among those interested in alternative social and economic thinking, it perhaps deserves some further attention in this essay.

Put briefly, the idea of the commons is that no business exists in a vacuum but is rather embedded within certain very real, though often intangible, assets, which Peter Barnes, a leading commons theorist, has categorized as ecological assets, such as air and water, etc.; community assets, such as libraries, museums, and political institutions, etc.; and cultural assets, such as language, the broadcast spectrum, and various intellectual and cultural legacies.⁷ Take, for example, a business that is based on a new technological invention. The truth is that every scientific and technological achievement builds on the works of others over hundreds and hundreds of years. And yet most businesses, unless there are patents still in place, do not have to pay for this history of technological achievement, rather they can draw from it freely and profit from it greatly.

Based on this insight, Barnes and others have conceptualized a wealth of new social institutions or “commons trusts” that would be mandated by the government and managed by private citizens acting as trustees to steward the commons. Businesses would have to pay the trusts for the right to make use of these assets, which in turn would create new sources of wealth for communities and would encourage companies to think more carefully and conscientiously about how they employ these assets in their economic activities.⁸ That is the idea anyway.

While I accept the basic notion of the commons and see great value in some of these proposals, I also feel that Barnes has

not addressed the inherent relationship between capital itself, both physical and financial, and the commons. For if goods and services are indeed the fruit of the working of human intelligence and labor upon these ecological, community, and cultural assets, and if capital is the fruit of the exchange of these goods and services, then capital itself, both physical and financial, is a penultimate expression of the commons and should be stewarded, in part, by a community of stakeholders.

The larger social problem, from this perspective, is not that businesses freely create surplus value from the commons. Rather the problem is that, once created, these values and assets have not circulated properly due to a lack of multi-stakeholder forms of ownership and due to a lack of consciousness of the importance of this circulation for the health of society. From this perspective, a Social Finance Organization is, itself, par excellence, a “commons trust,” which has been freely created by human beings who have recognized, either consciously or intuitively, that a portion of the surplus value created by the economy actually belongs to the community and, for the sake of social health, should be re-invested in the commons in the form of philanthropic loans, grants, and gifts.

This is also the reason I have proposed extending the role of SFOs and like entities to include acquiring an actual ownership stake in land and the means of production of farms and businesses. This way they can become not only stewards of financial capital but also stewards of some of the physical assets of the economy, which from this perspective should also be stewarded wisely by the community rather than bought and sold to the highest bidder.⁹

Imagine, for example, an entire business district in a small town in which all the land (and perhaps some of the buildings themselves) are owned by a non-profit SFO and leased to various businesses. Through such an arrangement, the community could finally have a rightful role in shaping the business district in partnership with the entrepreneurs. Currently, most communities try to shape the life of business districts from the outside through various laws, codes, policies, and incentive programs, rather than from within through economic, multi-stakeholder partnerships. If this downtown district, for example, had an unoccupied retail space that would ideally be occupied by a café, the community must no longer simply hope that such an entrepreneur appears and approaches the owner of the building; rather, the SFO can go seek such an entrepreneur and help facilitate his or her success.

In this essay, I have thus emphasized the role of SFOs, multi-stakeholder ownership, and healthy capital circulation as solutions to some of the problems of modern capital’s detachment, or flight, from the commons. This approach allows us to begin to embody the idea of the commons in our immediate work and day-to-day lives, rather than to wait for the government to mandate macro-solutions of the kind proposed by Peter Barnes, much less the kind of monetary system and policies proposed by Steiner, which is not to say these are not worthy efforts. Furthermore, this approach builds on an understanding of the positive role businesses can play in society. Barnes, on the other hand, seems convinced that greed will always have the upper hand in the economic life and thus focuses on the need to

enclose selfish corporations within the strong boundaries of “commons trusts.”

MULTI-STAKEHOLDER OWNERSHIP AND LARGER SCALE BUSINESSES

A further question we could ask ourselves is whether multi-stakeholder ownership has any relevance for larger companies in our movement, or for circumstances in which much larger sums of capital are needed than in the examples I have provided here. It is often at this stage of a company’s growth when the problems of mission drift and the danger of “sellout,” or simply under-capitalization, have most often occurred.

Interestingly enough, multi-stakeholder ownership of the kind I have described here is not unheard of in large-scale businesses, especially those founded by the idealistic businessmen of another era. A controlling share in Hershey Corporation, for example, is actually held by the Hershey Trust, a charitable organization that endows and manages a number of long-standing social and educational institutions in the community of Hershey, Pennsylvania. It was essentially the result of long-standing ties of this trust to the local community that prevented the Hershey Corporation from selling out to a multi-national corporation in 2002—a fascinating story of both the power and challenges of multi-stakeholder ownership.¹⁰

The real question, I would suggest, is one of scale and imagination. Could we, for example, imagine a national-level SFO serving the Sustainable Food and Farming Movement? This organization would pool funds from thousands of committed individual and institutional investors and depositors, both small and large; hundreds of existing companies in the movement; dozens of large, private foundations; and an array of other banks, financial institutions, and NGOs who partner on specific projects. Can we imagine this SFO acquiring an ownership stake in a wide range of companies small and large, a stake that also gives this SFO a say in decisions involving the sale of the company? Would not such an SFO function, essentially, as a kind of “commons trust” for the Sustainable Food and Farming Movement, assuming the SFO itself was organized in a fashion that provided for multi-stakeholder ownership and governance?

Alternatively, could we imagine that, in the future, socially responsible investors begin to use multi-stakeholder ownership as a factor as important as environmental practices in looking for businesses in which to invest? Just as the idealism of consumers has the power to change what companies produce and how farmers farm, so does the idealism of investors have the power to impact how companies are organized. In this light, it is worth mentioning two initiatives taking place in this country that are not off the ground yet but that have the potential to have a far-reaching effect on our movement and on the whole field of social finance and socially responsible investing, particularly at this larger scale.

The first of these is an initiative called “B Lab,” which is being incubated by the Investors’ Circle Foundation (a kind of think tank associated with the Investors’ Circle, an organization described in *Biodynamics* No. 265 (Summer 2008), 35). B Lab is based on the emergence and growth of the kind of altruistic com-

panies I have described in this essay, companies focused on social benefit that have incorporated active involvement by stakeholders in their ownership or governance. Based on this growing reality, B Lab envisions:

... a new sector of the economy, the For-Benefit sector, which harnesses the power of private enterprise to create public benefit. The For-Benefit sector, sitting between the for-profit and non-profit sector, is comprised of a new type of corporation—the B Corporation. B corporations are unlike traditional responsible businesses because they 1) institutionalize stakeholder governance; and 2) meet a set of social and environmental performance standards. The mission of B Lab, a non-profit organization, is to build the For-Benefit sector by 1) creating and promoting a unifying brand; 2) certifying and rating B corporations; and 3) developing and disseminating a legal framework to institutionalize stakeholder interests within existing corporate law.¹¹

The second initiative, similar in some respects, is that of Michael Schumann and colleagues to create an alternative stock exchange at the state level in Maine—a stock exchange that would be organized on altruistic principles and that would allow locally owned businesses to expand more readily by going public and being capitalized by, among others, non-professional investors like you and me who are committed to the vitality of their local economies. Imagine, for example, being able to invest in a small but growing chain of locally-owned natural food restaurants in your state. Schumann has described this initiative in his recent book, *The Small-Mart Revolution*, as follows:

We envision our first major step to be the creation of an underwriting company that helps LOIS [locally owned, import substituting] businesses, maybe a dozen each year, go public, within the state. Only Maine residents will be able to buy the stock, which effectively will keep ownership of participating firms local. . . . And unlike existing stock exchanges, this one might have the kinds of reforms many experts have been suggesting—without a prayer of success—for the New York Stock Exchange and the NASDAQ. A Tobin Tax—as small fee, between a tenth and a quarter of a percent, placed on all stocks held for less than, perhaps, six months—might be imposed to discourage speculation. No business might be allowed on the exchange unless it paid living wages and met certain sustainability criteria. Any firm guilty of fraud or other felonies might be banned.¹²

While these two efforts face enormous hurdles, through them, I believe, it is possible to begin to peer into the future of capital flow and ownership forms in an Altruistic Stakeholder-Managed Economy, a future in which the synergies created by thousands of altruistic companies and millions of altruistic investors and consumers begin to make possible the transformation of society from within the belly of the beast of our modern economic life.