SOTECIN FACTORY

D2.2 Final Guidelines "Principles for mission-oriented social innovation through a stewardship model"

November, 2022

Funded by the European Union under the Grant Agreement 101058385. Views and opinions expressed are however those of the authors only and do not necessarily reflect those of the European Union or European Health and Digital Executive Agency (HaDEA) . Neither the European Union nor the granting authority can be held responsible for them.

D2.2 Final Guidelines "Principles for mission-oriented social innovation through a stewardship model"

Author	Ana Raguž
Work Package	WP2
Delivery Date	September 30, 2022
Due Date	November 07, 2022
Classification	Public

Status of deliverable

Action/role	Name	Date (dd.mm.yyyy)
Submitted by	Impact Hub	04.11.2022
Responsible (WP leader)	CNR	
Approved by (internal reviewer)	Rosanna Fornasiero (CNR)	

Revision history

Date (dd.mm.yyyy)	Version	Author	Comments

Author(s) contact information

Name	Organisation	E-mail
Ana Raguž	Libellula studio d.o.o. (Impact Hub Zagreb)	ana.raguz@impacthub.net

TABLE OF CONTENTS

LIST OF FIGURES

GLOSSARY

Acronym	Description
SO	Steward-Owned

EXECUTIVE SUMMARY

Horizon Europe project **SoTecIn Factory** (*Social and Technological Innovation Factory for Low-Carbon and Circular Industrial Value Chains*) focuses on improving the circularity of seven key industrial product value chains, as defined by the EU Circular Economy Action Plan: (1) Electronics and ICT, (2) Batteries and vehicles, (3) Packaging, (4) Plastics, (5) Textiles, (6) Construction and buildings, (7) Food, water and nutrients. **It supports systemic transformation towards restructuring those value chains to be low-carbon and circular.**

SoTecIn Factory Consortium acknowledges that one of the possible ways for true systemic change required to transform industrial value chains in a long-lasting way is collaboration of diverse range of actors. Thus, they have designed a **mission-oriented social innovation process** utilising breakthrough technologies that embed new governance models based on stewardship ownership.

This process is centred around a **Community of *Social innovators*** focused on specific *Mission* in each of the seven regions addressed by the project. This community simultaneously innovates *Solutions* while **stewarding its *Mission*** in a bottom-up manner. While doing that, it promotes a culture of stewardship ownership of the *Missions* which is fundamental to their achievement.

These Principles and Guidelines' intention is to provide **a framework for mission-oriented social innovation** processes. Their intention is to enable diverse stakeholders to better understand the innovativeness of the SoTecIn Factory space, dynamics and goals - only this understanding can open up opportunities for the innovation process to be successful and meaningful.

The report was produced based on diverse inputs combining:

- Desk research (available scientific articles, books, reports, relevant conferences content and output, publicly available relevant digital content - blog and video);
- 2 workshops run with Consortium members (one focused on gathering input on diverse expectations and perceptions of the report's content and one focused on validation of the final content);
- 1 focus group with Regional Hubs (focused on Regional Hubs needs and perceived challenges of the innovation process);
- 2 individual meetings with Consortium partners (focused on their expertise, contributions to the project relevant for this output).

1. INTRODUCTION TO THE PROJECT CONTEXT

1.1 SoTecIn Factory approach to systems change

The world has been facing an increasing number of diverse and complex challenges in recent years, from armed conflicts, migration crisis, health threats, biodiversity loss, climate change, political turmoil and many more. All of those have constantly forced us to get out of our comfort zones, think and act fast in our quest as a humankind to find new solutions and innovate the way we face those challenges. The most recent of them have, more than ever, made us (finally) clearly see their systemic nature, connectedness and interdependence and taught us how fragmental solutions and interventions will not take us far. As a recent report on the convening of some of the relevant global system leaders "Convening the Capacity Builders Reflections on the Field of Systems Change" [1] articulated system change represents not "a promising area of action but is central to solving humanity's most difficult challenges" triggering change leaders to think and act radically differently. SSRI article "Mastering System Change" [2] equally recognizes system change as the one organisation are turning to tackle big social problems. As opposed to the short-term change focused on removing the symptoms, systems change is a lasting change in a system that has the ability to produce fundamentally different outcomes in a lasting way.

The process of transformation starts as we understand the urge to change our ways of thinking, first and foremost, by directing our attention into the root causes of the challenges of today and understanding the limitations of acting alone. With the help of technological advances, we have opened up spaces to experiment mechanisms and tools allowing us to shake old structures and its rules, paradigms and mindsets, on individual, organisational and collective level. **SoTecIn Factory is one of those spaces,** representing an **experimental collaborative environment connecting industry and society**, working towards a vision of systems change. Guided by the rationale that the industry sits at the core of the economy, the SoTecIn Factory project focuses on transforming selected industrial value chains so they can become a real driver of the wider systemic change the world needs - a lasting transformative change in a system driven by a proactive change of mindsets, power dynamics, rules, and structures.

In the context of the SoTecIn Factory project, a **system** is a particular, **pre-selected industrial value chain** (Electronics & ICT; Batteries & vehicles; Packaging; Plastics; Textiles; Construction & buildings; Food, water & nutrients). The **change** it intends to provoke is a **circular transformation of the value chain** through the proliferation of higher value "Rs", maintaining the value of products and materials for as long as possible. Addressing higher value "R" strategies (Refuse, Rethink, Reduce, Reuse, Repair, Refurbish, Remanufacture) is key to drive systemic change in industrial value chains, an essential aspect to be developed by companies, in order to achieve resilience and sustainability in all its facets. To facilitate holistic understanding of circularity, the SoTecIn Factory will use Metabolic's "Seven Pillars of the Circular Economy" [3] framework, which captures different areas that we must simultaneously consider when assessing whether certain activities are genuinely circular, from high value material preservation, to protecting global biodiversity and enhancing human well-being.

SoTecIn Factory's **approach to transformation** is mission-oriented social innovation process. The process convenes diverse actors centred around defined *Missions* that **build purpose-led ventures** with solutions for circular transformation of industrial value chains. These solutions can affect, for instance, how different resources flow into the sector, which new “rules” for engagement take off, which new key capacities and capabilities can be built, how new roles can contribute to closing material loops, and how mindsets can shift around handling materials, ultimately producing a new set of results. In order to make sure that both 1) those solutions do contribute to the circular *Mission* related to the specific value chain and 2) there is no mission-drift during the duration of the project, selected experts are gathered in ***Mission Councils*** set up for each of the project 7 *Missions* in 7 project’s regions.

The concept of Industry 5.0, as mentioned in the EC DG Research and Innovation Policy brief “Industry 5.0: Towards a sustainable, human-centric and resilient European industry”[4] will be defined by “a re-found and widened purposefulness” that goes beyond producing products and services (only) for profit. Throughout the course of the project, SoTecIn Factory will support intentionally designed ventures that have a purpose to contribute to the systems change.

These types of ventures are called systemic ventures which are particular types of social enterprises that use a systems approach in its activities, models and structures to achieve its system change objective. In order to create a solution with the desired impact, it is essential for a venture to fully understand the challenge and its root causes, not (just) capitalise on an opportunity. Challenges are complex, connected with many actors, patterns, drivers, and impacts. To be able to uncover the root causes of a challenge it addresses, ventures should use different tools to be able to understand what is required to change the way the system works - it needs to use the systems thinking - a philosophy, a set of tools that enables a holistic approach to analysis that focuses on how a system’s constituent parts interrelate and how systems work over time and within the context of larger systems. Systemic venture engages with the rest of the players in the system to contribute with experiences, knowledge and skills and contribute to wider positive change. Last but not least - it designs its ownership and governance that enables it to steward its purpose.

In the context of the SoTecIn Factory project, systems thinking will be enabled through interaction of actors that search for Solutions, those that propose Solutions and those that support Solutions and make sure they contribute to the specific *Mission* of transforming targeted key value chain. Through their joint effort and mutual interaction, they will shape the venture, a spin-off of the project with the ambition for them to become steward-owned and commit to go beyond producing products for profit but do so in pursuit of a visionary mission ahead. The following key principles when designing the systemic venture outlined in a White paper “Systemic Venture Building” by Metabolic [5] as well as article by Monaghan and Gray ”14 questions to guide entrepreneurs towards deep and lasting impact” [6] stress the importance of shaping the process of venture building that leverages diverse perspectives, commits to the larger purpose and uses profit as a tool of change:

1. **Starting from a Challenge -** fully and comprehensively understanding the problem and its root causes as no idea is likely to create the desired impact or to succeed where other solutions have failed.
2. **Using systems analysis as a tool** - enabling and using the right approach to uncover the underlying dynamics of a problem, understand its root causes and crafting meaningful interventions.
3. **Having a systemic impact as the goal -** understanding the dynamics of the system enables the creation of meaningful solutions that have the potential of achieving relevant and significant impact rather than a small, local change.

4. **Using business as a vehicle -** building a venture and its business model that are in service of a larger purpose and is set up in the way to protect it from external influences that may lead to decisions in conflict with the larger mission. Steward ownership presents a model serving that goal.
5. **Understanding money as a resource -** achieving financial autonomy and being able to have a sustainable business model enabling the reinvestment and scaling.

1.2 Open social innovation approach to venture building

SoTecIn Factory project program length involves **3 phases out of 6 of social innovation** (according to the model developed by Murray, Caulier-Grice and Mulgan [7]):

Diagnostic	Solution	Demo	Sustain	Scale & Diffuse	System change

Figure 1. Phases of Social Innovation addressed by SoTecIn Factory program

1. **Diagnostic /** Mapping, analysis and discovery from different sources and perspectives (or a Validation of understanding the system in case this phase started before the Program - in a *Solution* submission phase) with the purpose of understanding the system
2. **Solution (re)design** / Synthesis of data and inputs, ideas and concepts design that have a potential to achieve enough scale, visibility, and improvement in the system, setting a Theory of Change and key metrics
3. **Demo** / idea(s) and concept(s) with the highest possible leverage tested, lessons learned and incorporated

Rayna and Striukova [8] explores the open social innovation process happening across diverse maker spaces. While defining social innovation as “new processes and procedures that result in novel social practices, which enable to fulfil social needs or address social issues…”, the authors also discusses that keeping social (innovation) open is critical for its success as it enables access to the larger pool of necessary skills and resources. It argues that the application of “the open innovation paradigm to social innovation” increases the possibilities of all phases to be implemented, namely, social innovation to be successful and achieve systems change.

SoTecIn Factory project will use an open social innovation approach to the process of venture building. This will allow it to leverage the multidisciplinary character of the consortium on one hand, and the development of new models of collaboration on the other hand. This will involve a collaborative approach to **understanding problem and solution spaces**, **co-developing solutions** and **deploying them** in a manner that creates shared societal value:

- **Understand the problem and solution space:** Follow a multi-stakeholder process to understand the problem landscape and to map out existing solutions deployed across the 7 European regions (i.e., who are the players, what has worked and what has not in the past and why, where are perceived critical gaps, etc.), gathering input from diverse stakeholder groups.
- **Co-develop solutions:** Leverage the community towards a co-creation and co-design process when developing and deploying solutions with social innovators by allowing them to provide input and validate venture concepts and their respective strategies.

- **Open approaches to IP:** Encourage a suitable approach to intellectual property for each social innovator that maximises societal value and enables others to leverage their insights to progress the wider mission, whilst being aligned with the innovator's commercial strategy.
- **Shared decision-making:** Engage a wide range of stakeholders in joint decision-making, 1) selecting challenge owners and value chain challenges, 2) selecting the most promising solutions.
- **Share program-level learnings:** Systematically share the knowledge developed in the project (including blueprint development to facilitate replication) to maximise impact and to codify new collaborative, open innovation models that have worked throughout the project.

The SoTecIn project's aim is to **pilot an innovative way to drive the process of mission-driven venture building focused on circular innovation.**

SoTecIn factory will gather **different actors and stakeholder groups** leveraging different experiences, perspectives and skills to **work out solutions** focused on a determined ***Mission* within the circular innovation** of key industrial value chains. Mission will be **protected** through a specifically designed **stewardship model - Mission Council** - a multi-stakeholder group of selected experts focused on furthering the circular *Mission* related to the determined value chain and preventing any potential mission-drift throughout the duration of the project.

By putting **in practice the stewardship principles**, the project's process set the stage for **potential setting up of (mission-driven or mission-led) ventures** as spin-offs of the project that will potentially be steward owned. Design of these (future) ventures start in the project - by engagement of multiple stakeholders making sure the **system challenge is understood and solved** in a way it addresses the relevant and diverse impact(s) at scale. With that purposeful design and intention and resources focused on addressing a systemic change, **those ventures are systemic ventures.** As Murray Gray of Metabolic stresses in his blog "Design language for a systemic venture"[9]: "*We need to intentionally and specifically design for systemic change from the outset*". In order for these systemic ventures to stay committed to the intended transformation/mission, a **steward owned model** is an opportunity to opt for. **Steward owned companies** go beyond the principles, stakeholder engagement and impact diversity, scale and reach of social enterprises as new models of companies that have the potential to provoke systems change.

In order to set the **guidelines for this innovation process** to happen through interaction of different stakeholders' groups, the following chapters will: describe **the stakeholder groups**; explain basic **concepts of steward ownership;** and propose the **principles for these ventures building processes** based on social innovation.

2. MAPPING KEY ACTORS, ELEMENTS AND PHASES IN THE SOCIAL INNOVATION PROCESS

2.1 Regional Hub

Role: Conveners & Facilitators

The SoTecIn Factory has a physical presence across Europe divided in 7 regions manifested through one local Impact Hub per region (Amsterdam, Lisbon, Milan, Bucharest, Budapest, Hamburg, Istanbul). The Regional Hubs serve their whole region - lead and host all of the project activities for the region. They are also in charge of selecting the *value chain* for their region, building *Regional communities* and supporting the process of venture-building and broader stakeholder engagement on the ground.

2.2 Value chain

Each Regional Hub engages in the research process including stakeholder consultation to select one, regionally relevant **value chain** (Electronics & ICT, Batteries & Vehicles, Packaging, Plastics, Construction & Buildings, Textiles, Food, Water & Nutrients). From this value chain, specific *Missions* and *Challenges* will be derived. Regional Hub also builds the *Regional Community* which will be the central part of the innovation process.

2.3 Regional Community

Role: Shapers and supporters of the Mission

Diverse actors and stakeholders across the 7 European regions convened by the local Impact Hub - ranging from social innovators and social entrepreneurs, to academics, industry leaders, NGOs, policymakers, and to activists and civil servants. The community of regional stakeholders provide input to formulate the *Mission* related to the value chain and act as a general support network for the process and stakeholders of mission-led social innovation. It is also a handpicked and curated pool of potential *Mission Council* members.

2.4 Mission

The 7 *Regional Hubs*, together with Consortia partners and the regional communities, formulate at least one mission per value chain. These missions should be essentially broad but bounded aspirational objective(s), capturing the general circular *Challenge*(s) in the domain of selected *Value chain*(s) that the industry strives to solve with the use of social innovation-based *Solutions.*

2.5 Mission Council

Role: Stewards of the Mission and the progress of the solutions

Five to eight members from each of the Regional communities will be selected to form a regional Mission Council (making it up to the total of 7 Mission councils) overseeing and stewarding the achievement of each value-chain *Mission*. Mission council acts as a ‘guardian’ of the mission, overseeing the progression of the *Challenges* by the *Challenge owners* and *Solution* by *Social Innovators*. The Mission Council comprises a range of different actors who are passionate about the achievement of the regional *Mission* and cover an array of backgrounds and expertise: academic and industry professionals, investors, business owners, government representatives, circularity and technological experts

2.6 Challenge owner

Role: Providers of the challenge within the defined Mission

A part that contributes to setting a specific *challenge* within the context of the regional *Mission*. They are driven by the motivation to have the challenge solved, and support the *solution-providers* through funding, engagement, and deployment. A challenge owner can be a private organisation, as well as a public entity, or a non-profit. Challenge owners ideally should be composed of more than one per *Mission*. *Challenges* will be formulated in such a way that they not only support the challenge owners in meeting their needs, but importantly, contribute to a wider societal value through its contribution to the broader mission.

2.7 Challenge

A well-defined critical problem that circular ventures incubated in SoTecIn Factory will aim to solve throughout the program, contributing to progressing the broader mission.

2.8 Social innovator

Role: Providers of the solutions to the provided challenges

An early-stage mission-driven organisation based anywhere in Europe, that is solving the given *challenge* within the specific regional context where the *challenge* is set. The term social innovator is used to broadly capture the team behind the circular venture that SoTecIn Factory will spin-off, with an intention of it to be set up as steward-owned

2.9 Solution

Mostly tech-based innovation incubated in SoTecIn Factory that solves the specific challenge contributing to progressing the broader mission.

Example

- **Value chain:** Food, water, and nutrients in North-West Europe;
- **Mission**: Achieving zero on-farm waste in North-West Europe;
- **Challenge**: Achieving closed loop nutrient cycling in West Netherlands;
- **Challenge owner**: NGO - WWF; Private/business - Alpro; Public/government - North Brabant LNV;
- **Solution examples**: Software and hardware solutions facilitating precision farming, enabling farmers to rapidly boost on-field nutrient application efficiency (>>reduce); Integrated on-farm biorefinery to help farmers utilise manure and create a new value-added route for animal waste management (>> refuse, reduce, reuse);

- **Social innovator:** Existing start-up.

3. STEWARD OWNERSHIP MODEL

The aim is for all of the SoTecIn Factory ventures to be purpose-driven, and for as many of the ventures created in this project to be structured as steward-owned (SO) companies. Oftentimes the purpose of the company can be diluted or drifted from due to external factors such as investors, market forces, or changing shareholder preferences. Steward-ownership is an answer to this problem. According to the both Metabolic white paper “Systemic venture building” [5] and Purpose foundation “Steward ownership: rethinking ownership in the 21st century” book [10], steward-ownership builds on the principles of stewardship to present an alternative to conventional company ownership (based on shareholder primacy) that permanently secures a company’s mission and independence in its legal DNA. In addressing fundamental structural deficiencies of our system, it retools the goals and incentives that guide decision making in companies in the corporate DNA. Steward-ownership is one critical piece – the organisational structure – of a systemic venture. It seeks to protect the purpose of the company from a variety of external factors, moving towards ‘purpose primacy’. As there is (still) no specific legal form anywhere in the world, companies are often structured as foundations or trust-owned companies. In reality, there are many ways a steward-owned company can be structured based on the two principles, the best choice of which is context-specific.

Making steward-ownership a strong preference but not a “hard” criterion for the ventures shaped in this project - while ensuring entrepreneurs should be *open* to it without having to fully commit to it up front. This will be challenging in a number of ways: 1) motivating social innovators to become steward-owned; 2) identifying the best models to structure steward-owned in different jurisdictions; 3) raising funding for ventures, as steward-ownership can mean different forms, timelines, and return profiles.

This can be addressed by communicating steward-ownership simply and clearly up-front (through initial Open call for Solutions communication and/or specific training/capacity building for selected Social Innovators later in the process) and continuous dialogue with entrepreneurs about the benefits and drawbacks of the model and determining the best structure based on their ambitions that can be done locally hosted by Regional Hubs.

This chapter provides general overview with the information that also contributes to addressing the above-mentioned challenges and that provides understanding of the rationale behind the Mission Council role and engagement in the social innovation process.

3.1 Alternative models for mission-led ventures

Conventional investments and ownership structures that bring founders and their businesses to fast growth or failure, and ultimately an exit, do not offer a new generation of mission led entrepreneurs an opportunity to design, operate and manage their businesses with a strong foundation in their values and mission. For those entrepreneurs that want to have sustainable and social businesses, the existing tools and models constrain their commitment to purpose as they focus on profit steering their business decisions often with a pressure from investors – who have never seen or experienced from the first hand neither company’s day to day work, created value, teams or impact delivered through its business operations and decisions. In those conventional instruments and ownership structures, money equals power.

As there is a growing number of entrepreneurs who are deliberately choosing business as their tool for social change, necessity and urge rises to have alternative models that allow those mission-led entrepreneurs so they can commit their business to a mission of creating positive impact in the times of growing social, economic and environmental challenges. Those entrepreneurs who do not want to run businesses to increase their own or investors' profits, to take the standard road to profit growth and eventually exit, and even less to become new unicorns, but stay committed to the purpose - they need an alternative both to conventional investment opportunities as well as to ownership structures that will not force them to either sell their companies or drift away from their missions.

How can they have legal businesses running where decisions are made based on values and impact scaling/maximisation while still having an opportunity to access funding opportunities necessary to start, operate and scale their impact? How can they maintain the company's commitment to the determined purpose? The answer lies in companies adopting steward ownership

3.2 Steward ownership key principles

Steward-owned companies are committed to two core principles that enable companies to remain independent, purpose-driven, and values-led over the long-term:

- **Self-governance**

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

- **Profits serve purpose**

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

3.3 Features of Steward owned companies

3.3.1 What are the main characteristics of a SO company?

- Belief that profits aren't the primary goal. Capital is understood as a mean and resource for sustainable growth and furthering a purpose;
- Separation of the economic and the voting rights;
- Ensuring that money does not equal to power;
- Decisions are not driven by profit and made by distant investors or shareholders. They are driven by purpose and made by those stakeholders that are closely linked and deeply involved in the company's success and mission;
- Voting rights are not saleable. They are passed to the successors selected based on ability and values-alignment;
- The company is not a saleable commodity. The company itself, and the value it generates, exists for and is guided by its purpose;
- People become the company's guiding force. Governance control can be given to those who are active in the business and/or strongly aligned with its purpose;

- The profits are not extracted for personal gains. They are reinvested or retained to promote the mission. The company stays independent and can make innovative decisions on its future actions.

3.3.2. What is "Purpose" in SO Context?

Purpose of steward owned company can derive from different levels:

- Larger external mission;
- What the organisation offers (technology, products, or services to end customers);
- Internal dimension (how a company does business, employees' share in profits, work conditions…).

3.3.3. How do SO companies 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 deeply committed to the organisation's missions - inside or closely connected to the organisation (e.g. experience the needs of their customers or employees, feeling the impact of business decisions, involved in operations, etc.)

3.3.4. What is ownership in SO?

Responsibility and the freedom to determine what's best for the long-term survival of a company's purpose (those companies are not up for sale but passed on to capable and value-aligned successors).

3.3.5. What are the unique benefits of SO?

- **De-commodification:** The company is not a saleable commodity but an entity that survives independently for a particular purpose. The profits are not extracted for personal gains, but reinvested or retained to promote the mission.
- **Focus on purpose:** Adopting a steward-ownership requires a deep exploration of the values, mission, purpose and goals of an organisation and its stakeholders. The company, and the value it generates, exists for and is guided by its purpose. Decisions are made based on the purpose, not profit.
- **Employee productivity and retention:** Legally binding commitment to purpose has a powerful impact on the relationships with the employees guaranteeing that their work benefits the purpose of the company and not just its financial owners. This serves as a psychological basis for deeper motivation and enthusiasm for work, ensuring increased productivity, increased job security and fairer pay - attracting and retaining top talent.
- **Long-term orientation:** SO companies can focus on what is best for their organisations, employees, customers, investors, and society at large in the long-term. Does not have to compromise it for short-term excess profits demanded by stockholders and other investors.
- **Diverse governance:** The company's voting rights and economic rights are split. Governance control can be given to those who are active in the business and/or strongly aligned with its purpose. Control can be distributed among various stakeholder groups to ensure that there is a balance in protecting the long-term mission. Voting rights are not saleable.
- **Maintained localism:** Control is kept close to the company (within its employees or the greater community it serves). Decisions are not driven by distant investors or shareholders, but rather by those that are closely linked and deeply involved in the company's success and

mission. Statistics and profit are no longer the driving factors and the people become the company's guiding force.

- **Equitable value distribution:** Capital is understood as a resource for sustainable growth. By reinvesting profits rather than extracting them for personal gain, the company stays independent and can make innovative decisions on its future actions. Its capital is then shared with the company's stakeholders, including but not limited to their shareholders and investors, so that all who are touched by and involved with the company are able to share in its successes.
- **Longevity and profitability:** Studies have shown that steward-owned companies are six times more likely to survive over a forty-year span than conventional companies. These companies also tend to be more resilient in times of economic downturns, thus making their long-term survival brighter.
- **Democratised wealth:** The company is not inheritable by family or blood. Ownership is exclusively given to those people or entities who promote its purpose. This prevents dynastic wealth transfer and maintains the wealth with the company itself.

After this overview, it is important to mention a very relevant call to research in the article by Ivanov "Values-based business model innovation–the case of Ecosia and its business model"[11]where the author reflects on literature gaps important both for the future steward owned companies and stakeholders as well as the stakeholders engaged in processes such as SoTecIn Factory. These are, among others, how to address **conflicting stakeholder values in sustainable innovation**; how **decision makers set values as priorities** to invite and promote or block away change in key business model components.

3.4 Legal structures of SO companies

There is no specific legal form that founders could use to establish a steward owned company, just the existing examples to learn from. Unpublished working paper "Binding Capital to Free Purpose: Steward Ownership in Germany"[12] mentions that Germany is close to getting "a new legal basis for steward owned businesses" as a new sub-form of the established GmbH has been drafted. According to "Steward ownership: rethinking ownership in the 21st century" book by Purpose Foundation[10], these are the criteria to consider when deciding how to hack existing legal frameworks to instil a company's mission and independence into its legal DNA, shape governance and profit-sharing structures to fit SO:

- "a company's steering wheel is passed on to able, talented, and values-aligned successors."
- *"no party is personally incentivized to maximise profit at the expense of purpose."*

Founders need to include various provisions that prevent outsiders from tampering with and altering the company's long-term goal of serving its purpose. The companies/founders should search for suitable existing legal forms in a specific country to combine into a legal structure that will shape their Steward Ownership company. Picking the right forms that are suitable for a particular business requires creativity and strategic thinking, according to the Purpose Foundation. The decision depends on the needs, culture and maturity of a company. The right selection depends on a deep understanding of the company's people, values, purpose, operations, financials, logistics. Thus, the precondition for selecting legal forms is the entire process of defining all that will be relevant input for deciding which legal form(s) is/are the best and requires a lot of alignment between the stakeholders/co-founders starting with an essential - existing will of the (co)founders to make SO company. Process for setting the conditions to form a new SO company could be summarised in the following points, based on Purpose Foundation document "Workbook Verantwortungs eigentum" [13]:

- **Align** on the cofounder/stakeholders' motivation and values as well as common purpose
- **Understand** steward-ownership model and consider the decision to become SO company
- **Assess** the necessary features of the company (team, financial projections, capital needs, operations etc.) needed to inform financial and governance structure design
- **Decide** on making SO company and make a founding plan: Decide on legal forms and governance
- **Formally set up** desired outcomes for governance and profit-sharing.

In the continuation, some of the most common models for setting up steward owned companies will be mentioned, as elaborated in "Steward-ownership: A short guidebook to legal frameworks" by Purpose foundation[14].

3.4.1. Golden Share model

Golden Share model ensures that a company's assets are committed to a purpose and cannot be privatised, and that their governance is in the hands of people who are interested in the company's mission, rather than merely in profits.

Application of steward- ownership principles

(included in the articles of association of a normal limited liability company - to ensure enforceability and not simply a contractual right):

Self governance

- *Steward shares* / voting rights, no dividend / voting rights cannot be sold or inherited, passed onto capable successors or returned to the company;
- *Preferred shares* / no voting rights, dividend;
- *Golden share* / veto right/ authority to veto any attempts to unwind the structure or undermine the company's public commitment.

Profit serves purpose

Authority to veto:

- any attempts to unwind the structure;
- the separation of control and economic rights;
- sell the company or undermine the company's public commitment.

Voting rights

99-100%

- Steward shares (no dividend rights)
- Held and passed on to able and aligned successors (the "stewards") at nominal value and cannot be automatically inherited.

1% or less or veto-right

- Golden share (no dividend rights) + right to veto over certain provisions of the articles of association or corporate action which are essential for steward ownership principles like the division into classes of shares/rights or issuance of a new one, sale, liquidation, or other relevant actions.
- Golden shareholder cannot weigh in on the company's daily operations or in any corporate decisions other than those that would change the company's constitution regarding its steward ownership.

Economic rights

- Preferred shares (non-voting preferred shares) can be issued for investors or founders (dividend rights, no voting rights);
- Held by a charitable entity, investors, employees, or founders (thus representing delayed compensation for their work in the early years);
- Ideally issued with capped repurchase rights so that the company can repurchase them in the future.

Common Questions

- **Who is eligible for STEWARD SHARES?**

Some companies explicitly limit the group of people eligible to receive STEWARD shares (e.g. many companies using a Golden Share model specify that steward-shares can only be held by active employees; or some clearly define groups of stakeholders, or limit share ownership to company management).

- **How SUCCESSORS are chosen?**

The articles of association of steward-owned companies include specific succession mechanisms ensuring that the steering wheel of the company remains in the hands of the right stewards. Varies across companies; in some, stewards select their successors, who are then confirmed or vetoed by a worker's 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.

Case study Waschbar company (p.76 of the Purpose Foundation "Steward ownership: rethinking ownership in the 21st century" book[10]: "The ***succession council/board*** *is composed of 1 member of the veto shareholder, 1 member appointed by the company's management, and 1 member selected by both parties. The succession council selects successors for stewards based on recommendations from current stewards. When a steward leaves the company, she can elect a new steward. Successors can be vetoed by a succession board. If the stewards were to bring the company near bankruptcy or violate the law, the succession council has a right to remove them."*

- **Can employees & founders hold Non voting preferred shares?**

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 maximisation.

- **Who can be a VETO SHARE holder?**

Can be a foundation that must be self-owned and have clear provisions in its own charter/constitution that enable it to use this veto right to protect the provisions of steward-ownership. The veto-service organisation does not have a vote in any corporate decisions other than those that would change the company’s constitution regarding its steward-ownership.

- **Valuation of the veto share**

The Golden Share can represent a significant portion of the nominal

capital of the company - e.g., 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. 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.

- **What in the case of liquidation?**

Steward-owned companies often include a clause in their constitutional documents that dictates how the proceeds of a liquidation would be distributed or decided upon.

3.4.2. Single foundation model / some EU countries

Business is majority owned by a one single, self-governing **non-profit institution/foundation.** It owns 100% of the shares, dividend rights, and voting rights of for-profit businesses. It often has 2 boards:

- **Corporate Council:** holds the controlling rights of the company - executes the foundation’s voting right
- **Charitable Board:** holds the rights to distribute dividends to charitable causes.

This **division ensures** there is no conflict of interest between the charitable and operational arms of a business.

Prevalent in Denmark, less common in other countries because of tax regulations. Single-foundation models 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.[10]

3.4.3. Trust foundation model / D, NL

This model separates **voting rights** (steward shares) and **dividend rights** (non-voting preferred shares) completely by **placing them into 2 separate** legal entities:

1. **Charitable foundation**

Holds dividend rights for the company/ non-voting preferred shares/, no voting rights; can be a charitable foundation, a charitable trust, or any other kind of non-profit charitable entity.

*"The foundation receives **dividends**, can distribute money to charitable causes, ensuring that the company’s profits are not privatised or used to maximise shareholder value. Sometimes, it 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." [10]*

2. **Governing trust**

Main governance entity (a foundation, an association, a trust, an LLP, or some other legal structure) holds the voting rights in the company and 0.1% of the shares without any economic/dividend rights, managed by stewards. The treaties governing the trust ensure that the stewards can neither sell their shares with voting rights nor pass them on to their children, and can only be held as long as the steward is connected to the company.

Stewards are: the current leaders of the company, a combination of current leaders, previous leaders, and external independent supervisors or exclusively external independent and former leaders, the director, employees, or partners of the entity, depending on the entity's governance design.

This 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.

3.5 Financing options of SO companies

Steward-owned companies may reach stages in their development where they require investment capital to grow and develop their business. The optimal financing depends on what the company does and how much money it needs. Investor is not an owner but an enabler. It is important that an investor cares about the purpose and about the company pursuing that purpose. SO structure assures them assets are there for a purpose. Investors need to know essential information like CAP and the payback time frame; they want LIQUIDITY and their RETURN.

More information about financing options for steward owned companies - Annex 1.

4. GUIDELINES AND PRINCIPLES FOR SOCIAL INNOVATION

4.1 "Stewarded" social innovation

SSRI article "Open Social Innovation" [15] calls for more social innovations experimentation which is based on collective action and facilitated by the existing digital technology. Specifically, collaboration networks made out of different stakeholders pursuing common purpose and impact as the one built in SoTecIn Factory is one of the steps in this direction. In the need of more pragmatic, flexible, and scalable approaches to social innovation, SoTecIn Factory provides new ways of bringing people together and capturing value through a stewarded process of social innovation.

SoTecIn Factory will gather different actors and stakeholder groups leveraging different experiences, perspectives and skills to work out solutions focused on a determined Mission within the circular innovation of key industrial value chains. Mission will be protected through a specifically designed stewardship model - Mission Council - a multi-stakeholder group of selected experts focused on furthering the circular Mission related to the determined value chain and preventing any potential mission-drift throughout the duration of the project.

SoTecIn Factory project opens up the opportunity and space for mission driven ventures, their value proposition - solution and impact potential - to be shaped not only by the entrepreneurs and innovators themselves but the stewarding and supporting community around them. In order to frame the guidelines and principles for these processes, it is important to acknowledge the diversity of that community. Namely, it is important to understand diverse stakeholders' motivations, expectations, needs and responsibilities.

4.2 Stakeholders' profiles and their relevance

Regional communities are an initial pool of relevant stakeholders for the project and the entire innovation process, but also the source of future *Mission Council* members.

From the perspective of the ***Regional Hubs*** as key drivers of regional community(ies) building, the profiles of the *Regional communities* and *Mission Council* members will serve to shape the right narrative that targets the right motivation, sets the right expectations and communicates responsibilities.

Challenge owners and *Social innovators* are the key drivers of the innovation process providing the challenge and the solution proposal as its initial points. Their profiles will serve to shape the right narrative for the **Open Calls** for *Challenges* and *Solutions* targeting again the right motivation, setting the right expectations and communicating responsibilities. Together with the profiles of the *Regional communities* and *Mission Council* members, their profiles will also serve for the **final design of the innovation process**.

Regional community	Mission Council	Challenge owner	Social innovator

Figure 2. Key stakeholders of the SoTecIn Factory innovation process

4.2.1 Regional community member

Motivation:

Be part of an innovative, impact-driven stakeholder group at the forefront of sustainable industry transformation

Expectation:

- Expanding the network of core circular economy actors in the EU;
- Contributing with the expertise to formulation of the *Missions* and potentially to *Social innovators* and *Solution* design;
- Gain first-hand insights into newest circular innovations and high-impact technologies.

Responsibilities:

- Provision of inputs to formulate the *Mission* related to the *Value chain*;
- Act as a general support network for the process and stakeholders of mission-led social innovation;
- Potentially become one of the *Mission Council* members.

Needs:

- Clearly understand the guidelines to define broader regional *Mission;*
- Have an overview of the process of *Solution* design;
- Clearly understand the needs of Social innovators in terms of specific support;
- Have clarity on opportunities on when and how to support the *Social innovators;*
- Have an overview of the roles and commitment of the *Mission Council* members;
- Have the opportunity to connect to other *Regional community* stakeholders

4.2.2 Mission Council member

Motivation:

Being an active member of an innovative, impact-driven stakeholder group at the forefront of sustainable industry transformation

Expectation:

- Expanding the network of core circular economy actors in the EU;
- Gain first-hand insights into newest circular innovations and high-impact technologies;
- Contributing with the expertise and influence to the *Social innovators* and *Solution* design;
- Learning from global experts on systems thinking, entrepreneurship, circular economy, and technology innovation.

Responsibilities:

- Bring into the *Mission Council* a different set of knowledge, skills, expertise, and connections;
- Co-select *Challenge Owners* + contribute to shaping regional *Challenges;*
- Contribute to the Selection of *Social innovators;*
- Steward the *Mission* of the SoTecIn Factory program by preventing a mission drift;
- Provide Support to *Social innovators.*

Needs

- Clearly understand the broader regional *Mission;*
- Clearly understand the specific *Challenge and criteria for Challenge owners;*
- Clearly understand the criteria for *Solution* submission;
- Clearly understand the needs of Social innovators in terms of specific support;
- Clearly understand the process of *Solution* design;
- Have clarity on the role and the impact of the *Mission Council* to the design of the *Solution;*
- Have clarity on opportunities on when and how to support the *Social innovators ;*
- Understand the concept of Steward ownership;
- Have the opportunity to connect to other *Regional community* stakeholders

4.2.3 Challenge owner

Motivation:

Posing a specific *Challenge*, driven by the motivation to have it solved.

Expectations:

- Get concrete innovation *Solutions* to the *Challenge;*
- Provide support in their design;
- Connect to other stakeholders in the ecosystem.

Responsibilities

- Shape a *Challenge* in such a way that the solution not only meets their needs but contributes to a wider societal value through its contribution to the broader *Mission*;
- Provide support to *Social innovators* proposing *Solutions*;
- Share necessary information and data for the purpose of *Solution* design;
- Ensure that interests of the *Challenge owner* groups (in case there are more) are aligned with the broader regional *Mission* through participation in the *Mission Councils* (1 Challenge owner representative per Council).

Needs:

- Clearly understand the broader regional *Mission;*
- Clearly *understand* the needed input to shape a comprehensive *Challenge;*
- Clearly understand the process of *Solution* design;
- Have clarity on opportunities on when and how to support the *Social innovators;*
- Have the opportunity to connect to the *Regional community* stakeholders;
- Have clarity on their role and responsibilities within the *Mission Council* (if potentially selected).

4.2.4 Social innovator

Motivation:

Providing solutions to the given *challenge*, getting support and funding to develop a demonstrator.

Expectations:

- Get a diverse type of support for the design of the solutions;

- Connect to potential partners and funders;
- Potentially set up a Steward ownership company.

Responsibilities

- Propose a *Solution* in such a way that it not only meets the needs of the *Challenge owners* but contributes to a wider societal value through its contribution to the broader *Mission*;
- Open the *Solution* design for co-creation of the different stakeholders in the process and the inputs from the *Mission Councils.*

Needs:

- Clearly understand the broader regional *Mission;*
- Clearly understand the specific *Challenge;*
- Clearly understand the criteria for *Solution* submission;
- Clearly understand the process of *Solution* design;
- Have clarity on the role and the impact of the *Mission Council* to the design of the *Solution;*
- Understand the concept of Steward ownership, relevance and feasibility for their venture - (governance, financing, incentive structure, approach to IP to support long term mission commitment);
- Have the opportunity to connect to the *Regional community* stakeholders.

4.3 Principles of stakeholder collaborative social innovation process

"Creating effective and efficient multi-stakeholder collaborations is like building a house: if you don't consider all elements, see how they fit and work together, you will probably end up with output prone to malfunctioning and failure" [16].

Regardless if SoTecIn Factory innovation process stakeholders had a chance to work in similar collaborative environments, this experience will surely be a learning process for all of them and also a process where they can make a significant contribution to piloting a unique process of innovating circular solutions to transform selected industrial value chains, and even beyond - take these learnings to other contexts. **These are the guiding principles for all the engaged stakeholders in the process of social innovation, also essential for the process of system change:**

- **Stay committed to the common purpose:** No drift to the individual incentives and losing sight of the big(ger) vision. Keep the perspective of the power and potential of collective action for systemic change. Understand that commitment and action of every member of the group is equally valuable and essential for a meaningful process and change.
- **Embrace the uncertainty:** Accept the context where there isn't a singular objective to the mission, but rather it is a constantly evolving process. Some aspects and parts of the process will evolve according to a certain plan while others might drift into unexpected directions and outcomes.
- **Strive for systemic change:** Shift the mindset from a siloed towards a collaborative approach. Believe in the power of collective wisdom and action, keeping in sight the big(ger) vision and trust of impacting and transforming the system. Facilitate connections, offer resources, collaborate and otherwise work to build an ecosystem of like-minded change makers to reach goals that may not be identical, but are aligned for positive impact.

- **Embrace and balance the diversity of backgrounds, experiences, views:** Treat all stakeholders with respect and dignity, ensuring that all voices are valued and heard. Allow to be challenged - listen with intention, reflect on different perspectives and incorporate new learnings. Diversity is key to innovation.
- **Be responsible and accountable for the individual commitment:** Stakeholders' commitment to the process is essential to its success. Contribute to the process by engaging skills, resources and networks. Create value for the process by actively engaging in diverse tasks and delivering on taken responsibilities.

Core ingredients and approaches for different phases of the collective social innovation process should be designed in a way that they can be tailored, based in the context of each Regional Hubs (in terms of activities and their aims and ingredients, dynamics, length, tools used) and according to the local needs, specificities of the communities, challenges and solutions. This flexibility is intended so that they could best support their respective *Regional communities/Challenge owners-Social innovators-Mission Councils.*

Here are the **guidelines** that are intended **to contribute to shaping the SoTecIn Factory project social innovation process** of creating mission-led ventures and that can be helpful to **Regional Hubs to navigate implementing and hosting this process locally.** They can also help Regional Hubs in **minimising the possibility that any of the challenges** listed below would appear in the process.

4.4 Guidelines to shape the SoTecIn Factory social innovation process

The main steps to to shape the SoTecIn Factory social innovation process are:

1. **Build trust. Create safe space.**
   Invest time and space to nurture the trust, a basic condition for collaborative learning and sharing to happen - only when people have a chance to get to know each other is it possible that the sharing of resources and assets, collective intelligence and potential of collaboration emerges.
2. **Clarify the intention. Align on the purpose.**
   Defining a common purpose is essential to start the process of collaborative innovation. It is very important that people participating in the innovation process are able to define what is the core of the process and deeply understand its mission.
3. **Set the right expectations. Give (enough) structure and clarity on roles.**
   Aligning incentives, expectations and roles among different stakeholders will increase the possibilities of them keeping their commitment to the process. Expectations about process and outcomes vary among stakeholders. Although uncertainty is a key part of the innovation process, it is necessary to set just enough structure and a sense of the desired outcome, so stakeholders know what is/will be happening along the way. Have a roadmap to achieve the outcome, leveraging the particular capabilities and networks of each stakeholder.
4. **Incite people to collaboration.**
   Every group of stakeholders develop their activities differently depending on the cultural context, backgrounds, sectors and challenges. Generating self-designed rules could raise the sense of ownership and accountability of the process. Keeping stakeholders motivated and committed is not easy. It is necessary to engage them to conquer small "peaks" - victories, progress that enable the learning but also accumulation of resources such as trust, good will,

positive reputation, and infrastructure. How system change unfolds is hard to plan - making this small(er) steps and winning creates positive momentum and a feeling of success for those working on the change.

5. **Set the transparency as a key value. Communicate efficiently.**
   Multi-stakeholder collaborations are complex by nature. Safeguarding collective motivations while respecting individual motivations is a challenge of its own kind. Nurturing the culture of transparency enables stakeholders to resolve any tension that might arise, share knowledge and communicate comprehensively.

4.5 Potential challenges

Combining insights from different social innovation processes in different contexts as well as the particular experience of Impact Hub network and the local Impact Hubs in convening and social innovation processes, these five challenges are drafted as some of the most common ones that could happen in the SoTecIn Factory project. The list is not extensive and is intended as a starting point that will be extended throughout the duration of the project, specifically in collaboration with the *Regional Hubs. T*hese challenges depend on specificities of each *Regional community* and stakeholders gathered *around the Mission.*

1. **Aligning the expectations and the visions** - how to amplify the sense of possibility and belief in affecting big change and the sense of collective capacity and the power of pooled resources, namely, that the stakeholders can achieve collectively more than as individual stakeholders.
2. **Maintaining the commitment of time and resources to the challenge different stakeholders do not necessarily own** - how to minimise the risk of drifting to individual motivations, losing sight of long-term change that can be achieved only collectively?
3. **Balancing the levels of commitments of different stakeholders** - how to balance different engagement levels and voices of all the stakeholders in the process which is key to understanding the system challenge and creating a relevant and impactful solution?
4. **Working with cultural differences in the case of multiple countries engaged in one Regional community** - how to tailor-shape the process of innovation that can leverage that diversity and put it in function of the common goal rather than be trapped by it?
5. **Validating impact of the solutions** - how to set up the assessment of the Demo that can provide key inputs in envisioning long-term impact(s) it can achieve?

REFERENCES

[1] Illuminate network (2020). Convening the Capacity Builders Reflections on the Field of Systems Change, Convening Report.

[2] Seelos, C., & Mair, J. (2018). Mastering System Change. Stanford Social Innovation Review, 16(4), 35–41

[3] Gladek, E. (2019). The Seven Pillars of the Circular Economy, Metabolic blog entry https://www.metabolic.nl/news/the-seven-pillars-of-the-circular-economy/

[4] IBreque, M., De Nul, L., Petridis, A. (2021). Industry 5.0: Towards a sustainable, human-centric and resilient European industry, European Commission, Directorate General for Research and Innovation, Policy brief

[5] Metabolic (2020). Systemic venture building: How to create social ventures that can achieve transformative change. White paper https://www.metabolic.nl/publications/systemic-venture-building/

[6] Monaghan, C. & Gray, M. (May 2021). 14 questions to guide entrepreneurs towards deep and lasting impact https://www.metabolic.nl/news/14-questions-to-guide-entrepreneurs-towards-deep-and-lasting-impact/

[7] Murray, R., Caulier-Grice, J., & Mulgan, G. (2010). The open book of social innovation

[8] Rayna, T., & Striukova, L. (2019), Open social innovation dynamics and impact: exploratory study of a fab lab network. R&D Management, 49: 383-395

[9] Gray,M. Design language for a systemic venture, blog entry www.murrayfgray.com

[10] Purpose Foundation (2019). Steward ownership: rethinking ownership in the 21st century

[11] Ivanov, K. (2022). Values-based business model innovation–the case of Ecosia and its business model. International Journal of Innovation Management. 26. 10.1142/S1363919622400023

[12] Sanders, A, (2022), Binding Capital to Free Purpose: Steward Ownership in Germany, Unpublished Working Paper, submitted for publication at ECFR

[13] Purpose Foundation (2021). Workbook Verantwortungs eigentum

[14] Detablan, T., Esteves, A., McHardy, G. (2020). Steward-ownership: A short guidebook to legal frameworks, Purpose Foundation

[15] Mair, J., & Gegenhuber, T. (2021). Open Social Innovation. Stanford Social Innovation Review, 19(4), 26–33

[16] De Groote, Z. (2020). Challenges and Opportunities in Multi-Stakeholder Collaborations, blog entry https://www.modislifesciences.com/challenges-and-opportunities-in-multi-stakeholder-collaborations/

VIDEOS:

Impact Hub Network (2019). Steward Ownership Model webinar for Impact Hub Network by Armin Steuernagel

Fresh Ventures Studio (2021). FRESH Talks, Revolutionise Ownership for Impact Entrepreneurship. https://www.youtube.com/watch?app=desktop&v=Ld2n1AafLVc

Purpose Foundation (2019a). A founders' perspective on steward-ownership series. https://www.youtube.com/watch?v=GJJsLHKoEZA

Purpose Foundation (2019b). A founders' perspective on steward-ownership series. https://www.youtube.com/watch?v=2zeNiGfevXY

Purpose Foundation (2022). SO:22 | Conference on Steward-Ownership. https://www.youtube.com/watch?v=blyDvc9dOEM&t=11075s

DW Documentary (2021). Rethinking capitalism. https://www.youtube.com/c/DWDocumentary

USEFUL RESOURCES

Steward ownership

Transforming Ownership to Create a Better Economy, TEDxZurich talk by Armin Steuernagel (2018).

https://www.youtube.com/watch?v=Z2Uy_ODDiZo&t=21s

Case studies SO companies.

https://purpose-economy.org/content/uploads/purposebooklet_en.pdf

https://sifted.eu/articles/steward-owned-businesses-startups/

Purpose Foundation (2019). Steward ownership: rethinking ownership in the 21st century

https://purpose-economy.org/content/uploads/purposebooklet_en.pdf

https://purpose-economy.org/en/companies/

Makkonen, J. (2018). Steward-ownership is capitalism 2.0, Medium blog entry https://medium.com/bettersharing/steward-ownership-is-capitalism-2-0-76a1c50a6d88

Steward ownership for lawyers

Purpose Foundation (2020). Steward-ownership: A short guidebook to legal frameworks, https://purpose-economy.org/content/uploads/purpose-guidebook-for-lawyers10022021.pdf

Sanders, A, (2022), Binding Capital to Free Purpose: Steward Ownership in Germany, Unpublished Working Paper, submitted for publication at ECFR

Thomas, N, (2021). Golden Shares and Social Enterprise, 12 Harvard Business Law Review 201

ANNEXES

ANNEX 1

Financing options

1. EQUITY

- ***Non voting Redeemable preferred equity***

Non-voting redeemable equity are equity shares that have no voting rights, but are protected by certain provisions in case of emergency situations. In addition, these shares can and − under certain conditions − must be repurchased by the company either gradually or at a specific maturity date under a predetermined value (as agreed in the stakeholder agreement) from different liquidity sources, including cash, successive equity rounds, or debt. 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.

- ***Demand dividend***

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 the total predetermined return. Demand dividends are best suited for companies with relatively healthy growth projections and a reasonable line of sight to stable revenues. It can be combined with non-voting redeemable equity.

2. EQUITY LIKE DEBT

- ***Subordinated loan***

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.

- ***Silent partnership***

Mezzanine capital instrument, common in Germany, that acts like equity without (or with limited) voting-rights. It is a non-trading partnership between an investor and a company, with the investor participating directly in the profits and losses of the company. From a financial perspective it works like equity. 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.

3. REVENUE BASED FINANCE

Revenue/ Royalty share loan - operating revenue is shared with investors to repay investments. Investors are repaid incrementally as the company generates more sales, typically receiving a predetermined return on their investments

3.1. Revenue 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.

Additional reflections on investing in steward owned companies

Investing in a steward owned company is not donating the money, but getting a risk adjusted return (calculation of the profit or potential profit from an investment that considers the degree of risk that must be accepted in order to achieve it) without getting the power. **Investors do take risk** investing in steward owned companies but they get **rewarded for the risk**. By investing in steward owned companies, investors have less voice and more security compared to traditional businesses where they have a say, but no clue if and when the money would be returned. By investing in steward owned companies, **investors are directly supporting the impact/purpose** they care about.

The goal of the SO company is to **buy/pay back investors** step by step once the company is positive. Thus, investors' shares can be capped. Earlier the stage of the company, higher x for the investor: e.g. 1.5x - 3x for established companies who are selling but still not profitable. Payback model should be structured so the company does not have to pay 3x if it is not working. Until they are paid out, investors are paid and the rest of the profit is reinvested or donated. Part of it can be used for salaries in case of flexible salaries options - e.g. in case of increased revenues, salaries increase. Investor could also have the right to force the company after some time to buy his/her shares.