DRAFT

Multi-Stakeholder Company and Voting Structuring for intrinsic sustainability and thrival

Dr Graham Boyd, MD, Learning Transfer Solutions
12 Woodstock Drive, UB10 8EE, London

November 2013

Summary
People and organisations require better ways of adapting to change, learning, and activating new learning. They require better ways of meeting their own needs through working in organisations. Our globalised and finite world requires us to develop better ways of meeting our human needs.

Our business structures were designed to work in a world that is no longer here. They are designed to deliver the results we are getting today. These results are failing us on many counts. Only looking at leadership values is

A multistakeholder constitution and articles designs in structures, systems and processes that enable all stakeholders to have both a voice in general meetings, and the power to hold the company accountable. This paper is based on the implementation in Learning Transfer Solutions

The central principle is decoupling completely voting rights and financial rights. All shares that have a value and are tradable must carry zero voting. All votes must have zero value, may never be bought or sold, and are withdrawable.

This has the capability to deliver better business success, especially for a knowledge based company, because it delivers the core outcome of collaborative game theory. In other words, the whole pie as big as possible because each person's slice of the pie is as big as possible.

Whilst this is new, it is also a back to basics answer to why companies exist.

What is a Company for?

Charles Handy triggered an RSA inquiry in 1995, the "Tomorrow's Company inquiry", by asking the question "what is a company for?" The multi-stakeholder company is a design to take the best of what companies have stood for in the past, updated to work for the future.

A future dependent more and more on knowledge capital as an economic good; and the knowledge worker as the critical creator of value from that economic good. Value creation here works differently; knowledge cannot be used up in the process, and it's value multiplies the more it connects with other knowledge. So a knowledge based company will work best if it is designed upside-down vs. a traditional financial capital based company.

This is a pragmatic, practical way to balance the business, social, legal and moral dimensions of a company.

The etymology of the word Company is a good place to start understanding what a company is for. Panis is Latin for bread, and Companio is Latin for someone who eats bread with you.

So a company is there, in part, to increase the ability of the Companios to get some of what they need to sustain life. It is also there to deliver some output in return for some reward. A profit, for some measure of profit. It does this by having a clear purpose to fulfil, and principles to guide choices.

It also needs to provide structures, processes and relationships enabling each individual to thrive better by acting together than they could acting singly. In the words of Peter Drucker, organisations enable ordinary people deliver extraordinary output.

These Companios certainly include the investors, earning a return on the capital they have invested; and equally certainly the employees, partners and associates, however formal or informal the contractual relationship, earning a return on the effort and other capitals they invest. Companios clearly includes too those customers, and even end-users, who receive some benefit, who's lives are impacted by the products and services, and give some value in return to the company. Even more, the Companios might conceivably one day include anyone who's life is impacted, directly or indirectly, by the activities of the company.

Possibly even people representing the needs of our planetary ecosystem.

If a company is to truly increase the ability of all the Companios to thrive, then the company itself must thrive; especially, profitable, healthy cashflow. This happens best when each kind of interest each type of Companio has in the company is appropriately reflected in the governance of the company.

Interest in as we see it broadens the usual definition from "having an interest in a company means a financial investment" to any kind of interest. All of the different types of Companios who are impacted by the success of the company have an interest. Since they are impacted, they have insights relevant to how the company creates value. And so ought to have a vote in general meetings, not just the one group called shareholders.

The governance role of any Companio with an interest in the Company, regardless of the nature of that interest, is that of Stewardship and Advocacy.

The Companio stewards the company in such a way that, through the company purpose and principles, they enables the Company itself to thrive short and long-term. This increases the ability for all the different types of Companios to thrive. It means the company can evolve long-term to what it ought to become.

The companios are also powerful advocacates too; acting as advocates of the company purpose and principles as each Companio goes through life.

Defining a company in this way creates a group of persons, acting together in order to profitably deliver on the external and internal purposes of the company; and through doing so achieve at least in part their own purposes.

Company Purposes

Companies have two purposes, one facing outwards, the other facing inwards. For example, LTSGlobal has:

External Purpose:

We provide branded products and services that improve the ability of people and organisations to better adapt to change.

In particular, we enable individuals and organisations to improve their ability to learn and activate new learning.

Internal Purpose

To improve the lives across the diverse stakeholders, such as partners, employees, shareholders and other stakeholders by providing a way for them to meet all or some of their individual needs through working together towards delivering the external purpose of the company. These individual needs include, but are not limited to, needs in the categories of material, relationship, self-esteem, development, community, meaning and service.

Both the external and internal purposes together give emphasis on being a thriving, profitable business because it is a force for good, measured for people, planet and profit; and looking at long time frames (multiple generations) in doing so.

Decoupling Rights

Typical shareholder voting companies and their leaders are only held accountable for whatever the shareholders believe. Few companies have shareholders representative of all that society today believes companies ought to be held accountable for. The multi-stakeholder company and voting enables a fully representative general meeting to hold the company accountable for all that society today believes.

For this to work, each individual and category of Companio ought to have a power and influence reflecting their role, accountability and interest in the Company. Then Environmental responsibility, Social responsibility, and Business responsibility become one and the same, by design, delivering long-term success for profit, people, and planet.

The central enabler is decoupling Governance rights from Ownership and Investment rights.

Decoupling is doing the same for people in a company that has been done over the past centuries for the citizens of nations. Once upon a time, the right to engage in governing a country was reserved for those owning a portion of the country; i.e., the landowners. Today it is (almost) universally recognised that this fails to deliver long-lasting success, especially not long-lasting financial success for a nation.

This looks a lot like the definition of Citizenship for a country. Companios are the Citizens of the Company. For example, LTSGlobal is a global group of people; bonded by a shared purpose, rather than by a shared geography. Working together by mutual choice. This constitution defines what citizenship means, which rights and obligations citizenship carries, and how these ought to be earnt, and how they may be withdrawn.

This means the

- Financial rights (Appreciation, Dividend / Interest payments, Liquidation,)
- Voting rights
- Transfer Rights
- Information and Public Rights

are in distinct entities. Financial rights are in the form of non-voting shares; voting rights are earned, or qualified for according to some set of interest-criteria.

Competitive Equilibrium vs. Core Outcomes

For those more technical: traditional companies are designed in a way that works if "Competitive Equilibrium" assumptions are true. In today's world these assumptions often fail to hold true. Multi-stakeholder companies are designed around "Core Outcome" assumptions, which almost always hold true. Part of a core outcome approach is that it has many more ways of making the pie the biggest possible because the slice of the pie is also the biggest slice possible. So, for example, no-one can improve their personal position by a different vote in a shareholder meeting.

It does this because the multi-stakeholder company is designed to maintain a healthy balance across the diverse needs of both the Company itself and a diverse group of Companios, or Stakeholders, over a long time frame. For example, 5 generations. The Company is intended to develop and evolve in order to profitably thrive by serving its external and internal purposes over this long time frame (multiple human generations.) The company structure is intended to maximally enable the Company itself to become what it ought to become in order to serve its purpose.

To enable this there must be restrictions on the traditional rights of shareholders to take decisions on the future of the company as unilateral owners. Especially in any situation where there may be a conflict between the interests of the shareholder, the Company, and other types of stakeholder than the shareholder.

Consider also that Companies are defined as judicious persons, fictitous legal persons that come into being at the point they are legally established. (Very important in this is that *currently* companies have some, but not all, of the rights of natural persons, such as the right to own assets, and the right to be treated distinctly from other persons, natural and legal.)

Up until relatively recently most companies were primarily managed by the people who invested in them, their investment was stable over many years, and most of the value of the company was in tangible assets. In addition, most of the workforce consisted of full-time employees with long-lasting contracts, and few of them were knowledge workers.

When this is true, the shareholders can represent the needs of all stakeholders well enough. Typically they want the company to still be thriving for their grandchildren, for their community, and as their legacy.

It is less and less often true today that shareholders adequately represent the population impacted by a company.

Therefore the traditional hard-wiring of rights seen in typical share structures, which enabled wise governance when the above conditions were true, will in many a modern company today, (like LTSGlobal) lead to unwise governance.

For example, some listed companies today are having to learn quickly how to thrive with, or even survive, the unplanned decoupling of rights newly possible because of derivatives, leading to empty voting and hidden ownership.

Multistakeholder companies and voting defines a structure that gets the good side of decoupling by design. We have healthy empty voting by design, rather than potentially unhealthy empty voting by accident! This gives us more ways of being profitable in today's globalised, fast-changing world. And we build responsibility to people and planet into the structure, making it much easier to have leadership acting with the level of responsibility society is demanding. Because all voting will be according to a complete, representative set of interests in the company, including but not limited to investment.

Core Outcomes are especially important when the company operates as an "open company". Open innovation is by now well known; the line between external and internal R&D is permeable. Many young companies today are permeable across all of their people and operations. Learning Transfer Solutions is an open business, and requires core outcomes to generate profitable business.

Finally, this also means seeing the company less as the Anglo-Saxon legal name "Judicious Person" might suggest, and more as the French legal term might suggest: "Personne Morale", or moral person. By decoupling the financial rights of the investors and the control rights of all Stewards and Advocates the company is best able to maximise value for all long term.

Enfranchising all Companios and emancipating the Company

By decoupling in this way we believe the company, and all involved, are in a much better position to thrive, to generate profit, both short and long term.

Thriving better happens when an organisation is agile, able to adapt to changes, put new learning into action fast, and co-operate with others to mutual benefit.

We design this in by making rights and obligations reciprocal between the Company and Companios / Stakeholders.

In particular the phrase "interest in" is mutual; Companios have an interest in the company (e.g. a financial investment) and the company has an interest in all Companios (e.g. financial via the salary paid to a partner.) This enables the core outcomes (i.e., the biggest possible pie for all.)

As written above, this gives freedom to the Company to meet its properly selfish needs. And equal freedom to all Companios to meet some of their properly selfish needs.

Properly selfish, as defined by Charles Handy, means self-interests being met whilst recognising the relationships and processes in the bigger picture.

The Shareholders, and other types of Stakeholders, are more like Guardians of a human being, just as parents are of their children; with a duty of Stewardship and Advocacy. Stewarding the company, and being Advocates of the Company, to enable it to fulfil its purpose in line with its principles. So the Company is represented and given a voice through shareholders and other stakeholder representatives acting firstly as stewards and advocates of the Company's development, purposes and principles. Through this getting their own interests and needs met.

In all choices between options stewardship and advocacy means choosing in the long-term interests of the Company and the Companios. Appropriate structures and processes then enable this choice to also enable the company in return maximally deliver on the diverse long-term interests / needs of the diverse individual Companios.

In brief, success means ‘the company continuing to have the ability to profitably serve its external and internal purposes, and to determine and evolve towards its own destiny.’ So we have

- unifying external and internal purposes that will be worth striving to maintain and will bond all stakeholders.
- Purposes and Principles that guide decisions such that they serve the evolution of the company over a 5 generations time horizon.
- an ability to learn and adapt to the internal and external environment as it changes, in a way that maintains dynamically the internal stability and external equilibrium;
- an ability to encourage and take account of new ideas and relationships that will assist in the development of the Company
- shareholders speak first as stewards on behalf of the company, its purposes, and the accountability and role they currently hold in the company, and secondly for their interests
- a source of financial, intellectual and relationship capital that will facilitate the Company’s development.
- an average shareholding lasting many years (as Warren Buffett tends to) and not just a few seconds to months.

The Company stakeholder ecosystem.

The decoupling means we have

A) Citizenship obligations and rights; (Stewardship and Advocacy.) These rights are earnt through many different ways of engaging with the Company. The rights include
   - Information right: right to be heard as Steward and Advocate, i.e., give information.

    - Information right: the right to receive information enabling wise Stewardship and Advocacy.
    - Voting right: the right to engage in the governance of the Company using agreed governance and voting principles.
    - Circle right: right to be selected to any circle, board or committee role.
    - Transfer rights: A-rights may only be granted, limited and reduced by the company, as decided by the board. There is no possibility to sell or transfer them.
B) Shares, i.e., Financial rights acquired by a financial investment in the company. For most investors this decoupled rights structure is about the same as a simple ordinary share structure; except that the long-term income and appreciation ought to be higher. A holder of B-shares with a real financial interest in the company may earn A-rights and obligations. B-shares themselves carry only the following rights, with limitations and obligations described in the Constitution and Articles:
    - Appreciation, the right to any capital gain or loss in the value of the investment
    - Income: the right to receive a dividend or interest payments,
    - Liquidation: the right to residual assets after all other creditors have been paid
    - Transfer rights: the right to trade investment with another party, or withdraw investment, as limited by the Articles and Constitution.

The investment shares are quite standard, in so far as the financial rights go. We'll refer to them as "B" shares, reflecting the typical nomenclature used for non-voting shares.

"A" rights refers to all non-financial rights and obligations, including the rights to vote. These are detailed below.

Details on the Learning Transfer Solutions implementation.

Companio categories, rights and obligations
The A rights are divided into Stakeholder blocks. The blocks are there to insure that all with a stake in the company, all who serve and are served by the company, have a vote and other rights and obligations reflecting

- How big or significant to the success of the company the Stakeholder's investment of any capitals, interest in, or engagement in the company is;
- How big or significant the company success is in contributing to their internal needs; i.e., the company interest in the Stakeholder.
- The longevity of their commitment.

This recognises that all stakeholders, from the end-user to suppliers and investors, have a risk-reward relationship with the company; as the company falls or thrives, so too do they fall or thrive in some fashion. The company structure is designed to equitably balance, across all stakeholders, wise levels control and risk in order to maximise the ability of the company to succeed profitably in its external and internal purposes.

A-rights are earnt by

- A financial investment in B-shares
- Investment of time, e.g. as a partner
- Investment of knowledge, capability etc.

- Longevity of such an investment

Voting
The principle behind the split in voting rights is balancing different insights and information. So those "inside" and those "outside" the company each have 50% of the voting rights. This is the end-point we intend to reach once there are sufficient agents inside and outside the company.

Inside means those working partners, shareholding employees and significantly contracted consultants. They have the biggest interest in, most or all of their revenue from, and the longest commitment to the company. They always have at least 50% of the voting weight, and initially more.

The remaining stakeholder blocks, those "Outside" have at most 24% per block, and at most 50% in total. A-right stakeholders may only vote in one block, the block that most closely reflects the scale their engagement, dependence and commitment.

Resources
Many different sources have informed this way of creating the structures, processes and relationships that we believe will enable a company to thrive long-term in the coming century. A few that may be useful background reading are:

- "A Theory of Empty Voting and Hidden Ownership", Harvard Law School Forum on Corporate Governance and Financial Regulation, J.M. Barry et al., 2012. Especially pertinent is how core-outcome structures enable better long-term business success, compared with competitive structures. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2134458
- "Equity Finance for Social Enterprise", Jim Brown, Baker Brown Associates
- "One from Many, the VISA story", Dee Hock
- Charles Handy, multiple publications
- Meg Wheatley, multiple publications.
- Michael Porter, "Creating Shared Value"