GREAT TRANSITION INITIATIVE
VISIONS AND PATHWAYS FOR A HOPEFUL FUTURE

DECEMBER 2012

The Architecture of Enterprise:
Redesigning Ownership for a Great Transition

A GROWING ARRAY OF ALTERNATIVE OWNERSHIP DESIGNS point to a fundamentally different kind of economy, where basic social architectures – the architectures of ownership – are designed to be life-supporting. This kind of economy may be more likely to create fair and just outcomes, to benefit the many rather than the few, and to enable an enduring human presence on a flourishing earth. Emerging ownership models represent the potential foundation for such an economy. They embody an emerging archetype that has yet to be recognized as a single phenomenon with a single name. This archetype provides an alternative to the dominant ownership archetype of today, which can be called "extractive," for it aims at extracting maximum amounts of financial wealth. The emerging family of ownership designs can be called "generative," for their aim is to generate the conditions for our common life to flourish.

GTI PERSPECTIVES ON CRITICAL ISSUES

The *Great Transition Initiative* is an international group working for a planetary civilization rooted in solidarity, sustainability, and human well-being. With this long-term goal as our frame of reference, GTI Perspectives assess pressing near-term policy questions.

www.GTInitiative.org

The dominant institutional designs of modernity have relied upon an uneasy balance, built around a structural compromise. The institutions of government are seen as serving the public good, while the institutions of the economy – most prominently corporations and capital markets – are seen as serving the private good. The private good, moreover, has been defined narrowly as profit maximization for the financial elite. Today this social order is reaching its viable limits. In the multiplying crises we face, ecological and financial, we can read signals that the old system design is breaking down. It is time to begin a public discourse that goes beyond issues of free markets versus regulation. The critique and remedy must become more radical. Rather than striving only to externally regulate the institutions of profit maximization, we must move to redesign them at their core. In doing so, we can be guided by the accumulating experiences of alternative ownership designs – such as cooperatives, employee-owned firms, and social enterprises – that point to a fundamentally different economic system. The best of these institutions are self-organized not around maximizing returns to capital, but around serving the needs of life, for they are designed to support life, not to extract from it.

"Rather than striving only to externally regulate the institutions of profit maximization, we must move to redesign them at their core."

The Systemic Crisis and Conventional Capitalist Ownership

If the root social construct of government is *sovereignty* (the question of who legitimately controls the state), the root social construct of an economy is *property* (the question of who legitimately controls the infrastructure of wealth creation). Another word for property is *ownership*. Since the dawn of the industrial age, the global economy has increasingly come to be dominated by a single form of ownership: the publicly traded corporation, in which ownership shares trade in public stock markets. These companies produce 25 percent of the world's gross product. And the thousand largest of them account for 80 percent of global industrial output.[1] The systemic crisis we face today is entwined at the root with this design of ownership.

While it is easy to think of ownership as a fact, it is more accurately a historically constituted design. The dominant form of ownership of our age serves the needs of capital markets by generating endlessly growing financial wealth. Yet because financial wealth is a claim against real wealth – a claim on future wages, housing values, or company profits – capital-centered ownership works by extraction. We can call it *extractive ownership*.

If today we are encountering the hidden dangers of unchecked industrial growth, we are similarly witnessing the dangers of limitless capital growth. While the first danger has found its name in the phrase *ecological overshoot*, the second danger has yet to be clearly recognized. We might call it *financial overshoot*. More commonly, it goes by the name *wealth creation,* a process society sees as without bounds. Therein lies the problem.

When deregulation let loose the institutionalized drive for financial extraction at a global scale, the result was *financialization* – in author Kevin Phillips' terms, a social order where finance comes to dominate the economy, the culture, and government.[2] In its extreme form, financialization involves financial overshoot, where the claims of financial extraction begin to sap the strength of the social and natural order. The global superstructure of financial claims can ultimately exceed the load-bearing capacity of the real economy. In recent years, financial overshoot set the stage for financial collapse and the subsequent economic malaise.[3]

Systems thinking tells us that when management of a system is intent on a single variable, success can create exponential growth followed by collapse. That's the *threshold effect*, a point when a system flips from one state into another state, which is often degraded. A relatively small disturbance – like the failure of a small number of subprime mortgages – triggers an outsized system response. The same result is seen in natural systems when, for example, bovine growth hormone given to cows increases milk production, but makes the cows less healthy and shortens their lives. Managing for a steady increase of one variable causes instabilities to develop elsewhere. In economic terms, the constancy of seeking maximum gains for the few has caused stresses to build – excess debt, overburdened government budgets, unemployment, and so on – making the whole system brittle and vulnerable to crisis. Yet the aim of maximizing profits remains built in to the design of extractive ownership.

"Public debates about institutional change often provide the vehicle through which deep cultural attitudes can begin to shift."

A New Ownership Archetype Emerges

Systems do what they are designed to do. External regulation can constrain corporations and capital markets to some extent, but without internal redesign, their essential aim of profit maximizing remains unchanged, seeking every opportunity to break free. Under the principle of subsidiarity, where decisions devolve to the lowest practical level, internal design of systems for a desired outcome is preferable to seeking that outcome by regulating those systems after the fact. In systems terms, this is self-organization. It is about locating responsibility not in a layer wrapped around the system, but within the system itself.

Redesigning institutions as pervasive and deep-rooted as corporations and capital markets is no simple task. It is a task that inherently relies upon a broader cultural shift, for the existing designs of our economy reflect our culture. Ownership design, in and of itself, will not create a Great Transition. Yet history shows us that public debates about institutional change – regarding institutions such as Jim Crow laws, votes for women, or gay marriage – often provide the vehicle through which deep cultural attitudes can surface and begin to shift. That is to say, institutional change and cultural shifts tend to go hand in hand.

A nascent shift to alternative economic designs is already underway in our day, which is indicative of growing cultural change. The broad family of generative ownership design – which includes longstanding alternatives like cooperatives – is seeing the emergence of new models. These include social enterprises, which serve a primary social mission while they function as businesses. Also rapidly advancing in the U.S. are benefit corporations, which imbed in their governing documents a commitment to serving many stakeholders, not just stockholders. And there are employee-owned firms gaining ground in Spain, Poland, France, Denmark, Sweden, and elsewhere. These models are entrants into a family of older generative designs, which includes little-known designs like the large foundation-owned corporations common across northern Europe. Oldest and most pervasive are cooperatives – enterprises owned and governed by the people they serve – which are found in virtually every nation of the globe.

The growth and multiplication of these models represent a largely unseen ownership sea-change rising across the globe. At its heart is a genuinely different ownership archetype. Instead of being about maximizing financial gains, these ownership designs are about serving the community, often being financially self-sustaining in the

"If the publicly traded corporation represents a monoculture of design, generative design involves a diversity of models."

process. Many of these institutions are profit making. But they are not profit maximizing. They represent a new category of private ownership for the common good.[4] Alongside traditional nonprofit and government ownership, many communities are rediscovering commons ownership – a design which prioritizes long term stewardship rather than short term financial extraction. These many models have yet to be recognized as a single phenomenon, in part, because they have yet to be joined under a single name. We might call them *generative*, for their fundamental aim is to generate the conditions for our common life to flourish.

Taken as a whole, these ownership designs could create the foundation of a new kind of economy, a generative economy, where economic activity again serves its original purpose of meeting human needs. Generative ownership designs are about what the butcher, the baker, and the candlestick maker have always been about – serving the community as a way to make a living. The profit-maximizing corporation has been a detour in the evolution of ownership design, and a relatively recent one, historically.

If the publicly traded corporation represents a monoculture of design, generative design involves a diversity of models. What makes them a single family are the living purposes at their core, and the beneficial outcomes they tend to generate. While more systematic research remains to be done, there is anecdotal evidence that these models are less likely than Wall Street-owned firms to engage in destructive behaviors, are more likely to create broad benefits, and are more likely to remain resilient in crisis. This can be seen, for example, in the success of the state-owned Bank of North Dakota in the 2008 crisis – which led more than a dozen states to pursue similar models. It can be seen in the resilience and responsible behavior of credit unions, which generally did not create toxic mortgages and needed few bailouts. It can be seen in the fact that workers at employee-owned firms on average amass more in retirement assets than workers at traditionally owned firms. And it can be seen in the fact that in recent times the Basque region of Spain – home to the massive Mondragon cooperative – has seen substantially lower unemployment than the country as a whole.[5]

These relatively beneficial outcomes seem to correlate with the fundamental structure, the ownership design, of enterprise. As systems thinker Donella Meadows observed, system structure is the source of system behavior.[6] Just as cows eat grass

THE FAMILY OF GENERATIVE OWNERSHIP DESIGN

Commons and government ownership: Assets like the ocean, a forest, land, a park, or a municipal power plant are held or governed indivisibly by a community. This category includes, but is not limited to, government ownership.

Stakeholder ownership: Ownership by people with a human stake in a private enterprise – including cooperatives, partnerships, credit unions, mutual insurance companies, employee-owned firms, and family-owned companies – where the central purpose is a life-serving one.

Nonprofit and social enterprise ownership: Organizations with a primary social or environmental mission, which rely either on charity (nonprofits) or use business methods (social enterprise). This category, which includes hospitals, universities, and non-governmental organizations, embraces nonprofits, subsidiaries of nonprofits, and certain private businesses.

Mission-controlled corporations: Corporations with a strong social purpose that are owned in conventional ways (often with publicly traded shares), yet keep governing control in mission-oriented hands. These can include family-controlled firms, and the large foundation-controlled companies common across northern Europe because their stomachs are structured to digest grass, and earthworms burrow in the dirt because their bodies are designed for burrowing, a cooperative bank tends to make good loans because it is structured to serve its community and its members.

If generative enterprises maintain aspects of traditional property (they have owners and investors; they can often be sold), they are also *living systems*. Like all living systems, their behavior is governed by feedback loops. However, they do not function with the reinforcing feedback loops characteristic of extractive design, which lead those systems to race out of control, pursuing more and more profit, quarter after quarter. Instead, generative designs have stabilizing feedback loops that tend to moderate their behavior. Stabilizing feedback – like the thermostat on a furnace – maintains the equilibrium that living systems require.

"Extractive ownership design is a central force in keeping the growth machine in overdrive."

In the reinforcing feedback loops of publicly traded corporations, success is defined as a rising stock price, which leads CEOs to direct the enterprise toward that end, and to be paid handsomely when they succeed (and fired when they fail). Because stock price relies on increasing profits, this often means cutting costs, such as wages, benefits, and taxes. It also means pursuing aggressive expansion, which sets the stage for growing GDP and ecological overshoot. Extractive ownership design is a central force in keeping the growth machine in overdrive.

In enterprises with generative ownership, leaders are not, by and large, out to maximize their own income. They define success as serving the community and keeping the organization financially healthy over the long term. The purpose, ownership, and governance of these institutions – as well as the socially responsible networks of which they are a part – combine to create balancing feedback loops that keep these enterprises rooted in the real world, serving the aims of living communities. Because they are less addicted to growth than the extractive model, generative models may have a key role to play in a post-growth economy.

Enterprise ownership has five primary design elements: purpose, membership, governance, capital, and networks – each of which can be used in an extractive or generative way. Extractive design has a *financial purpose*: maximizing profits. Generative design has a *living purpose*: creating human well-being. While publicly traded corporations have *absentee membership*, generative ownership has *rooted membership,* with ownership held in human hands. While extractive ownership involves *governance by markets* – with control by capital markets on autopilot – generative designs have *mission-controlled governance*, with control by those focused on social mission. Instead of investments that involve *casino finance*, alternative approaches involve *stakeholder finance*, where capital becomes a partner rather than a master. Instead of *commodity networks*, where goods are traded based solely on price, generative enterprises are supported by *ethical networks*, which offer collective support for social and ecological norms. Not every ownership model has every one of these five design elements. But the more generative elements are employed, the more effective the design.

Making the Ownership Shift

Generative ownership designs represent a critical piece too often missing from our view of the process of global transformation. They add a vital tool to our toolkit, as we strive to answer the challenge of making a Great Transition from an economy organized around growth and maximum income for the few, toward a new economy organized around the flourishing of life.

Emphasizing the critical role of ownership design is not the same as suggesting that ownership design is a silver bullet that will solve all social problems. Changes of many different kinds – technological, political, cultural – will be needed, if we are to make a successful transition from one social order to another. Yet if ownership design is a central element of what shapes the workings of our economy, it is also largely invisible.

Government regulation will remain vital in a Great Transition world. Yet government has an additional role to play as system designer. Making the shift, over time, from the dominant extractive designs of today to generative designs will take a combination of private innovation and government guidance.

"We might envision a pincer strategy – one arm aimed at reforming existing large companies, another aimed at promoting generative alternatives."

Expanding the range of policy options rests on an expanded vision. In the many generative ownership designs already functioning, we can glimpse a new kind of economy – one that at its core is designed to create fair and just outcomes, benefit the many rather than the few, and enable an enduring human presence on a flourishing earth. This is likely the only kind of economy that, in the long run, can enable the planet and all its inhabitants to thrive.

Getting there will not be easy. In broad strokes, though, we might envision a global movement of citizens, investors, and businesses, both profit and nonprofit, working together to create a kind of pincer strategy – one arm aimed at reforming existing large companies, another aimed at promoting generative alternatives. We may need different designs in different sectors; generative private ownership may be appropriate for producing goods and services, for example, while the stewardship model of commons ownership is better suited for natural resources. In different sectors, government might incentivize and ultimately require a phase-in of generative ownership. At some point society will need to tackle the redesign of the operating system of major corporations. If we do not do so, alternative designs may remain forever marginal or face absorption. Starting with advancing generative alternatives could be a route to success that lays the ground for bigger wins in the future – leading to the ultimate redesign of major corporations.

In the same way that tackling climate change calls for a variety of approaches – different "wedges" – an ownership shift can also be conceptualized as involving various wedges. In developing nations, where traditional cultures still embrace norms of cooperation, there is potential for leapfrogging, if generative forms are adopted at an early stage of development. More developed economies could advance employee ownership and devise ways to enable investments in cooperatives. The next time a major corporation needs a government bailout, it could be required to re-charter in a more generative form.[7] If and when the next financial crisis hits, we might use it as an opportunity to shift assets from big banks to cooperative banks and credit unions. Yet another approach might be to draw a bright line prohibiting extractive ownership from operating in certain sectors, such as education or healthcare. Still another wedge might lie in helping the progressive, emerging companies of today – in sectors such as organic food, solar power, and wind – sustain their founding values over time, rather than being absorbed by multinationals. All these approaches together may make incremental advances, until the day a cultural shift – perhaps a citizen uprising – makes generative design the new norm.

Generative design teaches us that capitalism is not only a mindset, not only a long historical moment (perhaps now reaching its end-game), but a system engineered by particular mechanisms of ownership, which tend to encourage behavior of certain kinds. New types of social architecture are possible, and their nascent success tells us that a new kind of economy remains possible.

In trying to imagine a large-scale shift in the social architecture of the economy, it may help to recall a prediction made a half-century ago by Robert Heilbroner: "Capitalism will inevitably change and in the longer run will gradually give way to a very different kind of social order." If we advance alternative models now, we may see in the long lens of time that the deep transformation of ownership design was not an idle dream, but something closer to a historical imperative.

Endnotes

1. Medard Gabel and Henry Bruner, *Global Inc.: An Atlas of the Multinational Corporation (*New York: New Press, 2003), 2 – 8, 31. The overwhelming majority of multinationals are publicly traded.

2. Kevin Phillips, *American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century* (New York: Viking Penguin, 2006), 268.

3. Charles R. Morris, *The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash* (New York: Public Affairs/Perseus Books Group, 2008), 134.

4. State-owned companies also have a positive role to play, particularly with models like the government-owned Bank of India and the state-owned Bank of North Dakota, both of which remained resilient during the 2008 financial crisis. Other state-owned companies can represent business as usual, as with many large oil companies owned by governments.

5. These and other examples are explored more fully in Marjorie Kelly, *Owning Our Future: The Emerging Ownership Revolution* (San Francisco: Berrett-Koehler, 2012).

6. Donella Meadows, *Thinking in Systems: A Primer, ed. Diana Wright* (White River Junction, VT: Chelsea Green Publishing, 2008), 42.

7. Allen White, *"When the World Rules Corporations: Pathway to a Global Corporate Charter," GTI Perspectives on Critical Issues* (Boston, MA: Tellus Institute, 2010). http://www.gtinitiative.org/documents/IssuePerspectives/GTI-Perspectives-Global_Corporate_Charters.pdf

8. Robert Heilbroner, *The Limits of American Capitalism*, (New York: Harper & Row, 1965).

Marjorie Kelly is a fellow at Tellus Institute and author of the new book, Owning Our Future: The Emerging Ownership Revolution (San Francisco: Berrett-Koehler, 2012), which this GTI Perspective draws on.

Explore Joining GTI

TELLUS INSTITUTE
11 Arlington Street
Boston, MA 02116 USA
Tellus Website: www.tellus.org
GTI Website: www.GTInitiative.org
Email: gti@tellus.org