

**NEXT
GENERATION
ENTERPRISE
DESIGN**

*The Company as a Living System:
Enterprise Design for a Sustainable,
Equitable Economy*

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FIFTY BY FIFTY

Instead of picturing companies as objects owned by shareholders, designed to produce earnings like ball bearings off an assembly line, we need to see companies as living systems, part of the larger living system of the earth, designed to benefit life.

NEXT GENERATION ENTERPRISE DESIGN

THE COMPANY AS A LIVING SYSTEM: ENTERPRISE DESIGN FOR A SUSTAINABLE, EQUITABLE ECONOMY



Headquarters of South Mountain
Company

Are mission-controlled, employee-owned companies better environmental stewards than conventional finance-controlled corporations? Is transitioning to employee ownership a more likely path to keeping a firm's ecological mission alive, compared to selling a firm to a large competitor? The answer to these questions is critical to enterprise design for the 21st century and beyond. If we understand the relationship between enterprise design and a sustainable, equitable economy, we can be more deliberate in the choices we make. To illuminate this issue, the Fifty by Fifty project has prepared a series of company profiles, with support from Partners for a New Economy.

Our initial finding: Ownership by workers, combined with mission-driven governance, is an emerging model—viable in today's economy—that embodies critically needed design elements required for true environmental and social sustainability. This is the employee-owned B Corporation or benefit corporation. These are companies where founders have avoided sale to financial owners, instead passing ownership to employees as stewards, embedding a commitment to social and ecological benefit in governing documents.

In this model, mission is embedded either through the B Corporation nonprofit certification process, or the benefit incorporation framework in state law. Among B Corporations, we have identified 33 employee-owned firms.

If the goal is to build a sustainable and equitable economy, as a society we want to build and invest in durable enterprise designs that create and preserve environmental and social missions over the long term.

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Our hypothesis is that firms owned by investors primarily motivated by financial gain are less capable of having a deep and genuine sustainability mission. Such owners will only invest in sustainability if it yields short-term financial returns. Shareholders in publicly traded companies are large in number, geographically remote, disengaged from companies, and structurally limited in their ability to effectively voice social and ecological responsibility. Creating shareholders with different characteristics—fewer in number, close to the firm, engaged, committed to a common social or environmental mission—could help create companies compatible with an environmentally sustainable economy. In this configuration, owners can become moral agents.

Sustainability expert Carina Millstone, in her book *Frugal Value*, emphasizes that true sustainability cannot be driven by purely commercial concerns. Her hypothesis is confirmed by research from MIT, which found that the “business case” for sustainability is true only one-third of the time. True sustainability requires moral decision making. The question then is: in what ownership configurations is this possible?

An employee-owned benefit corporation may be the closest existing design that fits that definition. The companies in this emerging model include Eileen Fisher, New Belgium Brewing, EA Engineering, King Arthur Flour, Cooperative Home Care Associates, Gardener’s Supply, South Mountain Company, Namaste Solar, Dansko, and Technicians for Sustainability. They embody a powerful model of enterprise design for a new era of ecological sustainability and social equity—a corporate design for the 21st century and beyond.

Eileen Fisher: Designing for Change

Eileen Fisher, Inc., which designs and markets women’s clothing, is a \$440 million company that is 40 percent employee owned, a B Corp, and a leader in human rights and sustainability practices. Founder Eileen Fisher’s vision is of a world where business is a force for good. As the company website says, “Our vision is for an industry where human rights and sustainability are not the effect of a particular initiative, but the cause of a business well run. Where social and environmental injustices are not unfortunate outcomes, but reasons to do things differently.”

Fisher at one time thought about selling to another company. When Fisher met the CEO of Liz Claiborne and asked why she wanted to buy the company, that CEO said, “We can’t meet our mandated target of 10 percent annual growth without buying other companies.” As Fisher said, “I realized that most people were interested in what they could get out of the company, not what they could give to it.”





The Employee Stock Ownership Plan (ESOP) was a perfect fit for the company and for Fisher. The ESOP ensures that, when Fisher retires, the company will be owned by “the people who put their blood, sweat and tears into it; the people who love it and care about it and think about it every day.” That’s very different from those who see the company only as a way to extract maximum profits.

Eileen Fisher offsets 100 percent of its carbon footprint; is the first U.S. fashion house to pursue a safe chemical–certification program for its textiles; is on track toward a goal of using 100 percent organic cotton and linen by 2020; is collaboratively developing more transparency in textile industry supply chains; and is launching a program to buy back and resell its own used garments.

EA Engineering: Aligning Mission and Corporate Structure

EA Engineering, Science, and Technology, Inc., PBC (EA) was founded by Loren Jensen—an ecological engineering professor at one time mentored by Rachel Carson—who discovered that the dream of taking a firm public can prove a nightmare. This environmental consulting firm in Hunt Valley, Maryland, with 500 employees and \$140 million in revenue, for a time traded on NASDAQ. It found itself cycling through three presidents, seeing morale plummet, and getting in trouble with the Securities and Exchange Commission over accounting misstatements. Pressure for aggressive growth had clashed with the company’s scientific culture, damaging its environmental mission.

Jensen led a move to buy the company back in 2001. New president Ian MacFarlane transitioned to 100 percent ESOP ownership and benefit corporation status. The company has been profitable and strong ever since. Its design keeps environmental mission in the hands of genuine stewards, employees, rather than in the hands of absentee owners removed from the organization’s life. “Now we focus on who we are and what we’re doing. We returned immediately to the task of understanding environmental problems and knowing what to do about them,” Jensen said. “Nobody buys stock except in the hope of a good return on investment. The problem this poses for a company like EA is you confuse the goals. It was very difficult to manage in that environment.”

Jensen had many opportunities to sell the company to an outside buyer, rather than to employees. He could have made “millions more,” he said. Does he ever regret the choice? “No,” he said. “This company is my life. Even when I took it public, I did it to help the company grow.” He did not cash out any of his own stock in that process, unlike most founders.

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EA ENGINEERING**

Employee ownership played a role in restoring the identity and financial health of the company. As treasurer Peter Ney said, “It was a way for the company to use its financial strength to buy out the founder, rather than some outside party doing it.” The company’s ecological mission “couldn’t be cooked into quarterly earnings,” President Ian MacFarlane told us. He says that ecosystems and enterprises should be designed along the same principles. Because ecosystems are inherently long term and multi-stakeholder, enterprise design must be the same.

Gardener’s Supply: A Company as a Living System

Gardener’s Supply in Burlington, Vermont, is a model of a company as a living system. It was founded in 1983 by Will Raap, with a vision of improving the food system through organic gardening, and of creating a company where people, planet, and profits all matter. “It’s about how we can grow food closer to where we eat it, not trucking it all across the country,” says President Cindy Turcot. Today the company has 250 full-time employees, as well as 150 seasonal workers. It is 100 percent employee owned via an ESOP, and a certified B Corporation, named one of the few that are “Best for the World.”

“These are the businesses that are not only getting it right but expanding the possibilities,” said B Lab co-founder Jay Coen Gilbert; B Lab is the certifying group of B Corporations. “They’re the world’s top sustainability innovators, the companies who are pushing the envelope and showing the rest of the corporate community not only how it’s done, but just how much more can be done in the name of human and environmental sustainability.”

Gardener’s Supply carries only organic products, which help gardeners build better soil, recycle waste into compost, conserve water, control pests organically, and grow organic food. Its Reforest Teak line of furniture is certified by the rigorous Forest Stewardship Council.

Gardener’s Supply restored the Intervale, a 700-acre floodplain that by the 1980s had become a dumping ground. “We deliberately moved the company to the edge of this agricultural zone,” Turcot said, “and we cleaned it up.” One thousand tires and 350 cars were removed. Today the nonprofit Intervale—supported by Gardener’s Supply—runs an incubator for those who want to start farming, where young farmers work their own patch of land and benefit from common composting, processing, and marketing. The land produces more than 500,000 pounds of food a year. It also features the Intervale Conservation Nursery, which grows native trees and shrubs used by watershed groups in protecting Vermont’s watersheds. The Intervale has been called the “crown jewel” for locavores, and people come from across the world to visit.

When founder Will Raap in 2009 completed the sale of the company to employees, then-CEO Jim Feinson remarked that, at a moment when many jobs were moving overseas and companies were being sold to large conglomerates, Raap entrusted employees “to carry on his vision of a successful business, a compassionate corporate culture and commitment to making the world a better place through gardening.”

“If we’d been sold to a big company,” Turcot told us, “they wouldn’t have wanted this operation in Vermont.” Jobs would have been lost and the company mission likely watered down. You don’t have to look far to understand the impact of a corporate buyout. Ben & Jerry’s is just down the road in South Burlington. Since that company was bought by Unilever, few people think of it as the model for strong mission that

originally propelled the firm.

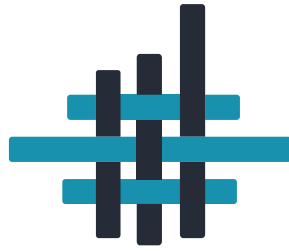
Gardener's Supply, and all these companies, invite us to reimagine what a company is. The dominant view today, the Wall Street view, is of an object owned by shareholders, which has a primary purpose of producing a smooth flow of earnings, like so many ball bearings off an assembly line. The alternative the planet needs, if we are to have a sustainable future, is a view of a company as a living system, part of the larger living system of the earth, and designed to benefit life.



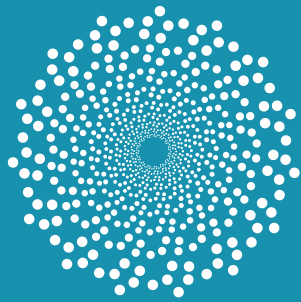
Stories of all the companies so far in the Employee Ownership and Sustainability series:

- John Lewis Partnership: The Power and Limits of Enterprise Design
- South Mountain Company: Cathedral Builders
- Amicus Solar Cooperative: Solar Purchasing Cooperative Spreads Employee Ownership
- Organically Grown Company: Transition from ESOP to Perpetual Trust
- Butler/Till: Employee-Owned Firm Grows its Sustainability Mission
- King Arthur Flour's Recipe for Success: Employee Ownership plus B Corp
- Eileen Fisher: Designing for Change
- EA Engineering: Aligning Mission and Corporate Structure
- Gardener's Supply: A Company as a Living System

Read more at: <https://medium.com/fifty-by-fifty/ecologicalempleeownership/home>



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