Teaching Case Hoe werkt steward-ownership?

Hoe Patagonia - en andere bedrijven - hun missie beschermen

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Teaching Case
How does steward-ownership work?

How Patagonia – and other companies – protect their mission

Centre for Economic Transformation | Hogeschool van Amsterdam

We Are Stewards

Introduction

Dutch entrepreneurs are increasingly driven by the desire to make a positive difference in the world, placing this above the pursuit of personal wealth[1]. Yet, most choose a legal structure that prioritizes the financial interests of shareholders. Since shareholders generally aim to profit from their investment, the company is expected to grow, ideally as rapidly as possible, making its broader mission a secondary concern.

This can be done differently. For generations, small and large companies in various sectors around the world have employed a different structure - one that has recently gained momentum. It safeguards a company's long-term mission while still allowing for shareholder investment. This structure is known as steward-ownership.

We illustrate this concept with an example you may well recognize, and whose product you might currently be wearing or have in your closet: outdoor brand Patagonia. In 2022, Patagonia chose steward-ownership to ensure its mission remains central in the long term.

You will learn what the classic forms of company ownership are and how steward-ownership differs from them. You will discover what steward-ownership entails, and we will introduce examples of steward-owned companies in the Netherlands. If you wish to delve deeper, there are additional chapters covering topics such as HR, taxation, notarial aspects of steward-ownership and its relationship to social entrepreneurship. At the end, you will find several assignments, designed to help you understand steward-ownership and apply it to real-time scenarios.

First, you will read the story of Patagonia, which makes you understand the importance for a founder to safeguard a company's mission.

Table of contents

[1] Global Entrepreneurship Monitor 2022-2023

1. Patagonia – international outdoor brand with a mission

It's the 1950s. Yvon Chouinard, a Californian teenager with a love for nature can often be found climbing in Yosemite National Park. Dissatisfied with the European climbing equipment he imports—especially since climbing is not yet a major sport in the United States—he decides to become a blacksmith himself. In his parents' backyard, he sets up a workshop where he forges pitons from hardened steel, far more durable than the soft iron versions coming from Europe. Before long, Chouinard Equipment is thriving and captures a substantial share of the international market.

After some time, Yvon and his business partner find that the steel pitons damage the rock. Each time a climber hammers a piton in for safety, the gap in the rock widens, requiring ever-thicker pitons to climb the same route. In Britain, however, they have begun producing aluminum chocks that cause no damage. Adopting this new material would require a substantial investment, and it is unclear whether American customers would embrace the change. Nevertheless, they decide to proceed and, in June 1972, publish a catalogue with the new chocks alongside an essay explaining why this new material is essential for the preservation of both the climbing sport and nature. One year later, 70% of the US climbing market consists of aluminum chocks.

In the early 1970s, Yvon takes a trip to Scotland. Unaccustomed to the cooler climate, he purchases a rugby shirt from a local shop, which proves ideal for climbing. Made of sturdy cotton to withstand the abrasive rock and featuring a high collar to prevent the equipment around his neck from chafing his skin, the shirt—unusually colorful by American standards—He imports a few, which sell out immediately. Since producing climbing equipment is highly labor-intensive with slim profit margins, selling clothing seems a promising way to support Chouinard Equipment. Yvon names this new clothing venture Patagonia.

And it is a success: the company grows, Chouinard Equipment is eventually sold and Patagonia gets all the focus. Yvon leads the business guided by his personal values. In its early years, Patagonia's official mission captures both *product* and *purpose*: 'Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.'

1. Create the best product

Much attention goes into innovation of materials that fit well with outdoor activities; thinner layers that don't get in the way, that keep you warm without getting damp, and that don't pill when rubbing against rock walls. The high quality and ever-increasing comfort of the clothing creates a loyal group of customers, which grows and grows - Patagonia was among the fastest-growing companies in the United States in the 1980s.

2. Cause no unnecessary harm

In 1988, a new shop opens in Boston. Within a short time, shop employees report sick one by one. The cause appears to be the vapor of formaldehyde rising from the new stock of cotton jackets. This prompts Patagonia to conduct further research into material use, and they come to the, at the time new insight, that the production of regularly grown cotton causes a lot of harm. The use of heavy pesticides kills all life in the soil on which cotton is grown, and some of it ends up in people's habitats. Rainfall also causes the pesticides to flow out into rivers and seas, resulting in dead zones. Wastewater from cotton dyeing also leads to large-scale pollution.

Therefore, Patagonia decided in 1994 to switch completely to organic cotton. One and a half years later, it has succeeded: the entire production chain has been revised and all cotton products are now made of organic cotton. For Yvon, it is crystal clear: ***"Low-input, small-scale farming, more than the factory farm, represents sound business now and in the future."*** [2]

From 2005, the emphasis lies on the use of recycled fabrics and Patagonia offers customers the opportunity to return their discarded Patagonia items. Through frequent testing and experimentation, more and more used fabrics can serve as raw material for new Patagonia products. And from 2011, in a major campaign, they call on their customers to 'reduce, repair and reuse', prior to 'recycling'; along with support services to help consumers buy less clothes, repair their clothes (or have them repaired) or resell them easily.

3. Use your business to protect nature

Patagonia is based in Ventura, California; a small industrial town where a largely dry river, the Ventura River, flows into the sea. Around 1980, some Patagonia employees attend a municipal meeting about proposed development plans at the site of the estuary, close to where they surf. At the meeting, a timid biologist, Mark Capelli, gives a convincing presentation of the biodiversity still present in and around the river, despite the pollution. The development plans go off the table. Patagonia gives Capelli a desk and budget to protect the river; and they see populations of birds and fish returning and growing over time.

This makes them realize that *grassroots* initiatives make sense and that small donations can make a big difference. So from 1985, 10% of profits are donated annually to small nature and environmental organizations, and a year later they increase this donation to 1% of sales. Because, in Yvon's words: ***"What we do affects the planet whether or not we make a profit."*** [3] Years later,

[2] Vincent Stanley and Yvon Chouinard, 2023, The Future of the Responsible Company, p.55
[3] Vincent Stanley and Yvon Chouinard, 2023, The Future of the Responsible Company, p.43

in 2002, Yvon co-founded 1% For the Planet. By 2023, 5,400 organizations worldwide have joined, who together donate $435 million to more than 4,000 non-profits.

Over the years, Patagonia has become increasingly aware of the garment industry's impact on the planet and people's well-being, while the effects of the climate crisis are becoming more tangible. Patagonia's activism is growing, within its own supply chain, but also in food transition and supporting NGOs. In 2018, the company's mission is therefore simplified: ***"We're in business to save our home planet."*** [4]

Good employer practices

Patagonia is a pioneer not only in how it makes an impact in the garment industry, but also in how it organizes things internally. From the start of the company, it runs a childcare center in the office, allowing parents to be close to their children at work, and providing wider opportunities to combine their careers with parenthood.

And Patagonia sees its employment practices more broadly than the people on its payroll. It also takes responsibility for the workers in its production chain worldwide. Through a partnership with FairTrade USA, there is increasing visibility and influence on paying fair wages and providing good working conditions to garment makers.

Learn more about Patagonia's vision of being a good employer in chapter 1.1.

Sustainable growth

The company's remarkable growth in the 1980s comes to an acute halt during an economic recession in 1991. came to an abrupt halt during the economic recession of 1991. As a result, 20% of the staff had to be laid off, prompting Yvon and his team to rethink their strategy for sustainable growth. From that point forward, decisions were guided by the vision that the company should not focus solely on expansion but, above all, on long-term survival. This often means deliberately slowing down growth. As Yvon puts it: ***'There's two kinds of growth, one where you grow stronger, and one where you grow fat. You gotta look out for that growing fat thing."*** [5]

This conservative, organic growth strategy has proven successful. Patagonia has grown into a global brand, with an estimated value of $3 billion by 2022. Throughout all these years, Yvon has remained the sole shareholder: he and his family have maintained full control of Patagonia's shares with and without voting rights. This has meant a lot for the company's development, as its course has never been set by an outside shareholder.

In 2022, Yvon is an aging man, prompting him to consider the transition of his business. Ensuring the protection of Patagonia's mission is both a key requirement and a significant challenge in this process.

[4] Vincent Stanley and Yvon Chouinard, 2023, The Future of the Responsible Company, p.81
[5] Podcast How I Built This with Guy Raz, 2016, Patagonia: Yvon Chouinard

2. Scenarios for the takeover of a company

When a founder leaves, there are several options for the future of the business, each with its own benefits and challenges. Traditionally, there are four common scenarios for business succession or ownership transfer.

1. Passing down to family members

This is often done by passing the business on to the founder's children and is common in family businesses where there is a desire to keep the company within the family. The challenge in this process is that successors must not only be willing to take over the business but also be competent and motivated to continue it in line with the founder's vision. In a fast-growing company, the next generation may be tempted to focus more on financial gain rather than preserving the original mission.

2. Sale of the company to an external party

This can involve a strategic buyer looking to integrate the business into their own operations or a financial party, such as private equity, with the intention of reselling the company in the future. Selling is often an attractive option for the founder, especially if the company's value has grown significantly. However, the risk is that the new owners may have different priorities, such as maximizing short-term profits, which could conflict with the founder's original mission and values.

3. Initial Public Offering (IPO)

An IPO involves listing the company on the stock exchange, allowing shares to be publicly traded. This route can provide significant capital for further growth and increase the company's visibility and credibility. However, going public also comes with challenges, such as increased regulatory requirements, shareholder expectations, and pressure to deliver short-term financial performance. Additionally, the founder may lose some control over strategic decisions as external investors gain influence over the company's direction.

4. Internal takeover by employees

This is often structured through an Employee Stock Ownership Plan (ESOP) or a cooperative model. This approach can foster a high level of employee engagement and commitment, as they become co-owners of the company. However, the process can be complex, particularly because employees may require financing to purchase shares, which can create financial pressure.

5. Steward-ownership

Each of the four traditional ownership transition models presents challenges for mission-driven companies. Steward-ownership offers an alternative designed specifically to protect a company's mission, regardless of ownership. This model separates ownership from control, meaning shareholders can benefit financially but do not have direct influence over the company's direction. By maintaining decision-making power with those committed to the company's long-term mission and values, steward-ownership reduces the temptation to prioritize short-term financial gain. As a result, the original mission remains safeguarded—even in the event of a sale, IPO, or generational transition.

At its core, steward-ownership provides a way to navigate the difficulties of traditional succession models while ensuring a lasting commitment to the company's mission. This makes it an attractive option for founders seeking to preserve their company's sustainability and core values, regardless of ownership changes.

This mission-driven approach is exactly what Yvon Chouinard sought when exploring a new ownership structure for Patagonia. Instead of selling the company or going public, he chose steward-ownership. Patagonia's ownership is now managed by the Patagonia Purpose Trust and the Holdfast Collective. The trust safeguards the company's values and independence, while the foundation ensures that profits (approximately $100 million annually) are used to combat climate change.

Steward-owned companies do not have external shareholders who dictate the company's direction or have the power to sell it. Instead, voting shares are held by 'stewards'—individuals responsible for upholding the company's mission and long-term continuity. In Patagonia's case, this role is fulfilled by the board members of the Patagonia Purpose Trust.

In steward-owned businesses, profits serve the company's mission. The company can first reinvest profits into its operations, with any remaining earnings distributed as dividends. At Patagonia, these dividends go to the Holdfast Collective, which channels the funds into climate action efforts. In Yvon Chouinard's own words: ***"Earth is now our only shareholder."***

Yvon Chouinard's decision to gift Patagonia to the Earth and itself aligns with the way he has always led the company. With the transition to steward-ownership, Patagonia's societal mission is now safeguarded for the long term.

3. Steward-ownership – what is it exactly?

What does steward-ownership mean?

Steward-ownership can be broken down into two words: *steward* or *stewardship* and *ownership*.

Ownership refers to possession. Running a business requires various resources, such as a location, equipment, and employees, all of which cost money. Sometimes, a company lacks sufficient capital to make these investments and must seek external funding, for example, from banks or investors. In return for their capital, investors receive shares in the company, granting them a portion of ownership. These shares are not only financially valuable but also provide voting rights and influence over company decisions. Consequently, shareholders often focus on profit maximization, which can sometimes conflict with the company's mission, employee well-being, and environmental considerations.

The traditional corporate governance model resembles a pyramid, where shareholders at the top hold the most power and make decisions about the company and its employees. Ideally, shareholders would align their decisions with the company's mission and broader societal interests, but in practice, this is not always the case. Due to globalization, shareholders may be geographically distant from the company itself. Take Ahold, the parent company of Albert Heijn, as an example: an individual in Australia can own shares without ever having visited an Albert Heijn store.

This contrasts with the concept of *stewardship*, which originates from Old English and refers to managing and serving something without personally owning it. Stewardship emphasizes responsibility beyond self-interest—a principle found in various religions that stands in direct opposition to the prevailing worldview, in which humans consider themselves owners of the Earth and its resources for personal gain. The essence of *steward-ownership* is that a company "owns itself" and primarily exists to serve its mission.

De steward-ownership principles

Steward-ownership is applied across different types of companies and industries.

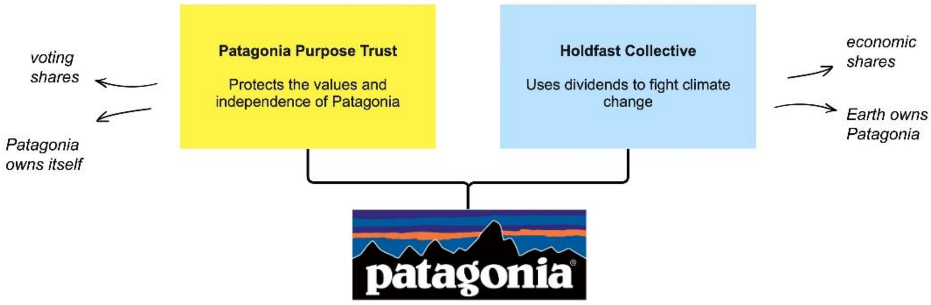
Two guiding principles are always present:

1. **Self-governance:** Voting rights remain with individuals actively involved in the company and cannot be sold or inherited.

2. **Profit serve purpose**: Profits are reinvested in the company and/or donated in line with its mission. Investors and founders receive fair compensation.

Steward-owned companies do not have external shareholders who can dictate the company’s direction or sell the enterprise. Instead, voting shares are held by "stewards"—individuals tasked with upholding the company’s mission and ensuring its long-term continuity.

In the case of Patagonia, this role is fulfilled by the trustees of the Patagonia Purpose Trust. For steward-owned companies, profits serve the company's mission, primarily by allowing the company to reinvest in itself. Any remaining profits can be distributed as dividends. In Patagonia’s case, these dividends are allocated to the Holdfast Collective, which directs them towards fighting climate change.



The rise of steward-ownership

The principles of steward-ownership have been applied across generations and industries worldwide. A notable example of a long-standing steward-owned company is the German enterprise Zeiss.

The Carl Zeiss Foundation holds all shares of Carl Zeiss AG and Schott AG, both global leaders in optics, precision engineering, and glass. In 2022, they collectively employed more than 55,000 people and generated €11.5 billion in revenue. Following Carl Zeiss's death in 1888, Ernst Abbe established the foundation, which has owned both companies ever since. The foundation’s charter prohibits the sale of shares, ensuring perpetual independence. Profits are reinvested or donated to scientific education and research, making the foundation Germany’s largest private donor to scientific research. This model has enabled the companies to pursue their goal of "clear vision for everyone" for over 100 years.

The impact of steward-ownership

What impact do steward-owned companies have? Over the past years, researchers, including those from Copenhagen Business School, have studied this extensively. Denmark has a significant presence of steward-owned businesses, contributing 8% of private-sector employment and 13% of total revenue. Three of Denmark's largest steward-owned companies—brewer Carlsberg, pharmaceutical company Novo Nordisk, and shipping giant Maersk—pursue both commercial and societal goals.

What do Danish studies reveal about the impact of steward-owned companies?

Steward-owned companies are sustainable and future-oriented

Steward-owned businesses focus more on long-term objectives [6] and are no less profitable than non-steward-owned companies[7]. They invest significantly more in innovation[8] and prioritize sustainability[9]. Additionally, after 40 years, steward-owned companies are six times more likely to survive compared to their non-steward-owned counterparts.[10]

Steward-ownership fosters employee and partner engagement

Steward-ownership assures employees that their work contributes to the company's mission, creating a psychological foundation for deeper motivation. Employees experience greater job security, more influence in decision-making, and fairer wages[11]. As a result, steward-owned businesses are better positioned to attract and retain top talent. Suppliers and customers benefit from a business where employees and managers are deeply connected to and directly responsible for its mission. This leads to stronger customer loyalty, ultimately benefiting the company's overall health[12].

Learn more about the implementation of steward-ownership in in-depth Chapter 3.1, including legal models (3.1.1), stewards (3.1.2), and profit distribution (3.1.3).

Learn more about the relationship between steward-ownership and social entrepreneurship in in-depth Chapter 3.2

[6] Kuhn et al, 2015, Foundation Ownership and Externalities
[7] Børsting et al, 2016, Industrial Foundations as Long-Term Owners
[8] Børsting et al, 2014, The Performance of Danish Foundation-Owned Companies
[9] Gedikli, 2021, The role of steward-ownership in enabling sustainable innovation
[10] Børsting et al, 2016, Industrial Foundations as Long-Term Owners
[11] Kuhn et al, 2014, The Demography of Danish Foundation-Owned Companies
[12] Børsting et al, 2017, Foundation ownership, reputation, and labour

4. Steward-ownership in the Netherlands

Steward-ownership has been used successfully for more than a century by large and small companies in all kinds of sectors, all over the world. International examples include, besides Patagonia, technology group Bosch, watchmaker Rolex and beer brewer Carlsberg.

By the end of 2024, approximately 150 steward-owned companies are operating in the Netherlands. In recent years, steward-ownership has been on the rise. Dutch examples include organic supermarket Odin, theme park De Efteling, construction company TBI, heating system manufacturer Remeha and organic plant shop Sprinklr.

Steward-ownership can be applied to all kinds of companies, but there are three types of companies to which it is mainly applied in the Netherlands:

Startups with growth potential
(fair platforms, agritech, etc.)

Healthy (family) businesses
Looking to succeed and with sufficient personal wealth

Social initiatives, semi-public and essential services
(healthcare, energy, food, mobility, etc.)

Startups with growth potential

The traditional model for a start-up (startup) focuses on rapid growth and attracting venture capital. Investors want to see the highest possible returns and therefore drive startups to grow rapidly, often exponentially. This pressure can cause the startup's original mission – whether solving a specific problem or serving a particular target group - to fade into the background. The focus shifts to making the startup attractive for acquisition or initial public offering, which often means adjusting or even abandoning the original ideals completely.

The story of the Dutch company Time To Momo (formerly Moonback) illustrates how this can be different for startups. Entrepreneur Niels Meijssen returned from a trip during the onset of the corona pandemic and on returning home read that Booking.com had applied for state aid. This was a company that had made $5 billion in profits the year before and spent billions on share buybacks, yet now it was seeking taxpayer's support. Niels had long been troubled by the platform, which had made more and more hotels dependent and charged higher commissions, which was ultimately paid by hotel guests. The state aid request was the final straw for Niels. He posted a critical post on LinkedIn, announcing his intention to start an honest alternative that would serve both hotels and hotel guests, instead of just enriching investors.

Niels' post went viral and received thousands of comments and messages of support from travelers and hoteliers. This massive support and frustration showed Niels that there was a market for an honest booking platform. He decided with his college friend Mart to develop a new platform, Moonback, but wanted to avoid at all costs that Moonback would have the same pitfalls as other platforms. He found the solution in a steward-owned structure.

Healthy (family) businesses

One of the biggest threats to the continuity of a family business is business transfer to subsequent generations. 7 in 10 family businesses do not survive the first generation change because founders maintain too much control. As a result, the next generation is unable to do business effectively or is too cautious[13]. After the third generation change, only 3% are still standing . Steward-ownership offers a solution to this.

An example is heat pump manufacturer Remeha. Remeha is part of BDR Thermea Group, which manufactures and distributes heating and hot water systems internationally. In 2021, the BDR Thermea Group achieved a turnover of over 2 billion euros, with more than 6,200 employees in more than 100 countries. Originally, Remeha is a Dutch family company that traded in steel pipes and fittings for the heating industry. In the 1980s, all shares in Remeha were transferred to Stichting Aandelen Remeha by the founder's son. This made the company steward-owned.

Social initiatives, semi-public and essential services

Companies in sectors such as energy, food, healthcare and housing fulfil our primary necessities of life, and it is precisely in these sectors that it is questionable whether profit maximization for shareholders is the right goal. While competition and entrepreneurship can lead to more quality and innovation, a strong focus on shareholder value can actually have negative consequences, as can be seen in the healthcare sector.

BuurtzorgT is a fast-growing mental health care provider in the Netherlands, founded in 2013 by Nico Moleman and Jos de Blok. The company focuses on patients with complex psychiatric and social problems and aims to bring psychiatric care into people's homes, an in-between between outpatient treatment and hospitalization. BuurtzorgT distinguishes itself by its self-managing organization, unlike many other healthcare organizations in the Netherlands that are hierarchically organized. Moleman and De Blok opted for steward-ownership to ensure the company's independence and avoid public money flowing to shareholders. The model combines the speed and flexibility of a private limited company with the stability of a foundation, which BuurtzorgT says is essential for their long-term success.

[13] ECFB, BDO, Rabobank, 2016, New blood new direction

Learn more about financing models for steward-ownership in in-depth Chapter 4.1.

Learn more about the notarial aspects (4.2.1), tax aspects (4.2.2), and director liability and governance (4.2.3) of steward-ownership in in-depth Chapter 4.2.

On the We Are Stewards website, you can find an up-to-date overview of all Dutch steward-owned companies

Closing

Patagonia shows that companies committing to a social or sustainable cause can be incredibly powerful change agents. Since its founding, the brand has donated more than $100 million to environmental initiatives and has become a pioneer in sustainable business practices. The company has started a movement that has challenged the apparel industry to take responsibility for its environmental footprint.

This has not been at the expense of the company's economic sustainability, but rather has made it more relevant and stronger. Now that Yvon Chouinard has retired, he can be confident that the interests of the planet and future generations remain at the center, as the company follows a model in which this mission remains guiding. Steward-ownership ensures the mission - of Patagonia and all other companies that follow this model.

By keeping control of the company with knowledgeable and mission-driven stewards, steward-ownership enables companies to act in the interests of business continuity and focus on long-term values. In a new vision of the economy, where sustainability and responsible entrepreneurship are increasingly important, this type of ownership is essential. It is a foundation for companies that want to be a 'force for good' and protect their mission while changing the world for the better. If we want a sustainable and fair economy, steward-ownership offers the solution.

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