

## **From the Fringe to the Leading Edge: Generative Design Goes to Scale**

**By Marjorie Kelly**

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I want to thank David Korten for that generous introduction, and I want to thank all of you for rolling out of bed so early. It's a great honor to be back at BALLE. Last time I was at this conference, it was in Charleston S.C., and that was where David first unveiled the new BALLE vision. I thought it might offer a good wakeup call here at 8:30 in the morning to recall that vision.

“Within a generation,” it says, “we envision a global system of human scale, interconnected local living economies that function in harmony with local ecosystems, meet the basic needs of all people, support just and democratic societies, and foster joyful community life.”

I want to thank David for that very inspiring vision.

Within a generation. We better get to work.

One of the most important things we need to turn our attention to in pursuing this vision is scaling up. I had a conversation not long ago with Andrew Kassoy from B Lab, one of the creators of the B Corporation, the beneficial corporation. I asked him, how many of the 500-plus B Corporation companies are led by their founders? He paused, and he looked at me, and he said, “Well, ALL of them.”

That in a nutshell is where we are today. The local living economy movement is made up primarily of companies owned by single individuals and families. But there's a growing feeling, David tells me, that we need increase our sophistication about more complex forms of ownership that allow companies to grow, to take on significant amounts of capital, and to keep social mission alive after the founder is gone. Outside of BALLE, I see a similar growing interest in alternative kinds of companies, and a growing dissatisfaction with business as usual.

I think the time is right for taking our vision out to a broader audience, which is something I hope my new book can help a bit with. As David told you, it's called *Owning Our Future: The Emerging Ownership Revolution*. We had copies specially shipped here today – it won't be in bookstores for several weeks, but we wanted BALLE to be the place to celebrate it coming off the press. If you're interested in a signed copy, I'll be having a book signing this morning at 11:30, so please come chat.

In writing this book, I traveled around the world looking at ownership alternatives – from the foundation-owned corporations common in northern Europe, like Novo Nordisk, a major pharmaceutical that makes 40% of world’s insulin; to community owned wind farms that helped Denmark generate 20 percent of its power from wind, more than any other nation. There are the cooperative banks that hold 21% of all deposits in Europe – owned and democratically governed by their depositors. And employee-owned companies are being promoted by nations like Spain, Poland, France, and Sweden.

You may know that 2012 has been declared the Year of the Cooperative by the UN. Cooperatives are found in virtually every nation of world. They represent 45% of GDP in Kenya, and 22% of GDP in New Zealand. Worldwide, cooperatives employ more people than all multinationals combined.

So I’m here to share the good news that we at BALLE are not alone. There is an unseen ownership revolution rising up all across the globe. It has yet to be seen as a single movement because it doesn’t yet have a single name. I would suggest we call it the generative economy. This is an economy that embodies the BALLE vision – an economy whose fundamental architecture tends to create beneficial rather than harmful outcomes. It’s a living economy that has a built-in tendency to be socially fair and ecologically sustainable.

The notion of a generative economy adds a critical element to the BALLE vision, which is the element of ownership design. Every economy is built on the foundation of ownership. In a way that many people fail to notice, ownership is the foundation of our world. It’s the power of ownership that determines whether we’re empowered or belittled by our work, how much anxiety we suffer over our debts, whether we’re able to own a home or be secure in retirement. Questions about who owns the wealth-producing infrastructure of an economy, whose interests it serves, these are among the largest issues any society can face. Issues of who owns the sky in terms of carbon emission rights, who owns water, these issues are planetary in scope.

The crises we face today, ecologically and financially, are tangled at their root with the particular form of ownership that dominates our world – the publicly traded corporation, where ownership shares trade in public stock markets. The revenues of the 1,000 largest of these corporations represents roughly 80% of global GDP.

But we here in this room know there’s more than one way to own things. What I would like to suggest to you today is that the many ownership alternatives – from community land trusts and cooperatives to social enterprises and community ownership of the commons – these alternatives represent a single, coherent school of design. It’s a family of generative ownership designs. Together, they form the foundation of a generative economy.

Generative means the carrying on of life, and generative design is about the institutional framework for doing so. In their basic purpose, and in their living impact, these designs have an aim of generating the conditions where all life can thrive. They are built around a Living Purpose.

This is in contrast to the dominant ownership designs of today, which we might call extractive. Their aim is maximum extraction of financial wealth. They are built around a single-minded Financial Purpose.

But purpose alone isn't enough. What turns it into a design is the presence of at least one other structural element that holds that purpose in place. In the journeys I've undertaken for my book, I've found five basic elements of ownership design, which can be used in extractive ways, or generative ways. The first and most important is purpose.

Second is membership. Who's part of the enterprise? Who has a right to a say in profits, and who takes the risk of ownership? Corporations today have Absentee Ownership. Generative ownership has Rooted Membership, with ownership held in human hands.

Third is governance. Extractive ownership involves Governance by Markets, where control is linked to share price. Generative ownership involves Mission-Controlled Governance, with control held in mission-oriented hands.

Fourth is finance. Instead of the Casino Finance of traditional stock market ownership, generative approaches involve Stakeholder Finance, where capital becomes a long-term friend.

Fifth and finally, there are networks, because no firm stands alone. If traditional approaches use Commodity Networks, where goods trade based solely on price, generative economies use Ethical Networks, which offer collective support for social and ecological norms. Not every ownership model has every one of these design elements. But the more elements that are used, the more effective the design.

I want to close by sharing a story about the most exciting example I found of a truly generative company at large scale. That's the John Lewis Partnership, which I visited in London. It's the largest department store chain in the United Kingdom, with 35 department stores and 272 grocery stores. When I entered its flagship store, called Peter Jones, I went in through an employee entrance with a legend in stone above the door, which read, "Here is partnership on the scale of modern industry." And that's certainly true. This company employs 76,000 people, and has revenues of \$13 billion – which makes it bigger than Monsanto. It is 100 percent owned by its employees. And its stated purpose is serving their happiness. So here we see a clear articulation of Living Purpose.

We also see Mission-Controlled Governance. Employees directly elect a Partnership Council, which in turn appoints one third of the board of directors. When I was walking through the Peter Jones store, I ran into an employee who serves on the Partnership Council, and asked him what would they be taking about at their next meeting. He said they'd be discussing how to improve the employee pension plan; and would soon take a proposal back to their constituents; and by constituents he meant his fellow employees.

There's also Rooted Membership at work here, because the members of this company are its employees. Every year the company shares between 40 and 60 percent of profits with employees. Last year that meant a bonus of about 9 weeks' pay.

I met a clerk named Emma on the floor of one grocery store who'd only recently joined the company, and she said she'd gotten a bonus of \$3,200, which allowed her to take her first vacation in four years.

I met a butcher named John, who told me his sister Carol, who also worked at the store, had been diagnosed with cancer and had been out for three months, and the store was holding her job. Because of that family emergency, she could apply to a special Committee for Financial Assistance, where decisions to offer extra help were made entirely by employees.

This company practices Stakeholder Finance. It's been offering a John Lewis Partnership Bond, available only to customers and staff members, which pays 4.5% a year, with an extra 2% in store vouchers. Capital is definitely a friend, and not a master, at this company.

The John Lewis Partnership is larger than what many of us would consider human scale. Yet it maintains a human touch in many ways. And it offers some critical design lessons. The first is that generative design ultimately depends on more than the founder. This particular company is over 100 years old, so its founder is long gone, yet its social mission is very much alive because of the design of the firm.

We can see here what it means to design a company as a living system – instead of seeing it simply as a piece of property, which is the view that stock markets take. Generative companies are both property and living system. They need to be designed for both.

As a living system, a generative company functions by the same rules that govern all systems, and those rules have been articulated in a body of thought called systems thinking, which applies equally to biological systems and social systems.

A core insight of systems thinking is that *behavior comes from structure*. All systems have a structure that shapes what they do, just as the structure of a Slinky shapes how it bounces down the stairs.

When you take a socially responsible company and sell it to a multinational, you have changed its fundamental structure. And you will see different behavior as a result. Quite often, you'll see social mission squeezed out.

When we think of the structure of a company, we tend to think of its bylaws and articles of incorporation. But living structure is something else. Living structure is purpose expressed through design. Real purpose may not be written down anywhere, but it's in a company's behavior that we see it. Enron had a beautiful code of ethics, but it had nothing to do with its actual behavior.

Keeping a company's true purpose alive over time isn't something you can design for just once and then be done. In fact there are three points in the life of a company when design for social mission is particularly critical. The first is at the founding. The second is when a company takes on significant capital, or goes public. The third is when the founder sells or retires.

In my work with Cutting Edge Capital, where I'm now a consultant, we've been working recently with a medium-size mission-oriented company that is planning two relatively large offerings of preferred stock and bonds. It's stakeholder finance, which we're helping design. And it's the first time the founder will lose majority ownership of the company. We're suggesting that he add the design element of what I call Mission Shares – a separate class of super-voting shares that allows a designated group to control the board of directors, without having majority ownership of all shares.

With Novo Nordisk in Denmark, which is a publicly traded company, Mission Shares place control in the hands of a foundation. With the New York Times and Washington Post, Mission Shares are in the hands of a family. In other cases these shares are in the hands of employees, or key executives. The company we're working with might create a stakeholder council to control these special shares. Mission Shares are a way of allowing complete liquidity for investors, while ensuring that the soul of a company is not for sale.

The final lesson these various models teach us is that generative ownership is not just for small companies. When democracy was new and existed in only a few places, people said it would only work in small countries. But today, it's the dominant form for governments across the globe. One day, we may well see generative design become the dominant form for economies across the globe.

We can go to scale in different ways – by building large companies that have generative design, or through creating networks of linked smaller companies, like the networks of BALLE and the global network of cooperatives.

But here's the truth that we need to tell the world. And that is that, in many ways, generative design is already at scale. We are not the fringe anymore. We are the leading edge of the future.