

Risk profile of venture capital investments in steward-owned companies

Background (www.purpose-economy.org)

Purpose is a group of nonprofit and for-purpose organizations developing the ecosystem of knowledge, resources, support, and capital necessary to make transitioning to steward-ownership and raising capital on aligned terms easier for businesses. Steward-ownership is an ownership structure for companies that retools the goals and incentives that guide decision making in companies. Steward-owned companies are committed to two principles:

- (1) Self-governance - Control remains inside the company with the people directly connected to stewarding its operation and mission. With the control of the company held in a trust, it can no longer be bought or sold.
- (2) Profits serve purpose - Wealth generated by these businesses cannot be privatized. Instead, profits serve the mission of the company, and are either reinvested in the company, stakeholders, or donated. Investors and founders are fairly compensated.

Purpose provides patient, mission-aligned capital to steward-owned companies. For purpose-driven entrepreneurs, the conventional VC model is often incompatible with the mission of the company or the type of company they want to build. These founders are interested in more than growth for growth's sake. They want to build lasting, impactful businesses and preserve their mission in the future. We invest in people who feel passionately about steward-ownership – about what it means for their company, team, purpose, and the world. Our founders want to help build a more social, sustainable economy and understand their businesses as part of the solution. With Purpose Ventures, we provide mission-aligned capital to help early-stage and Series-A steward-owned startups and businesses grow and succeed without selling themselves. Our terms allow companies to stay independent, provide investors liquidity without a sale or exit, and build impactful companies.

The Project Study

Investments in steward-ownership are in some aspects quite different from conventional venture capital investments, meaning it is unknown territory for investors. For them, it seems risky to invest in companies without voting rights and without the possibility to make an exit with an unlimited, potentially enormous multiple and thus with the

potential to balance out losses from the other 9 out of 10 investments in startups that fail. As part of our conversations with investors, we are interested in looking deeper into the failure rate and risk-profile of investments into steward-owned startups in comparison to other startups. Are there sound facts that indicate that steward-owned companies have a smaller failure rate? And on the other hand, are there factors indicating a relationship between ill-fitting venture capital investments and failure rates? For example, how is the failure rate related to the scaling up of business models and high growth rates which are part of many venture capital investments, also relating to the unicorn vs. zebra discussion that is currently ongoing in the startup world? Can ill-fitting venture capital increase the failure rate of startups that could have grown to become healthy mid-sized businesses? Purpose is interested in different lines of argumentation for a causality of risk-profile of startups and steward-ownership based on scientific facts and data.

Your role

You will be working in a **team of 2-4 students** working on a report focusing on:

- An overview of distinguishing features of steward-owned startups
- An analysis of factors that influence failures rates of startups and thus influence the risk profile of venture capital investments
- An analysis of the role that ill-fitting venture capital investments can play in startup failures by pressure to scale up quicker/make a faster exit to become an unicorn.
- Based on the above, an extraction of different lines of argumentation for a causality between risk-profile of startups/venture capital investments and steward-ownership. Starting points for argumentation can be, but not limited to:
 - Different approaches to growth and scaling up (zebra - unicorn)
 - Stewardship-Theory
 - Connection between purpose and profit (e.g. work of Alex Edmans, Pieconomics)
 - Long-term perspective
 - Relation to family businesses and their risk profile
 - Motivational theory

What we offer

Purpose as your organisational partner will be available for discussions, feedback and advice. They can provide insights in their own strategy and investments, and give an

example of an investment organization focusing exclusively on investments in steward-ownership.

The project study and all discussions will take place in a digital format.

Who we are looking for

We are looking for a **team of 2-4 students** that are highly motivated to pursue the project as their project study. We hope for students with out-of-the-box thinking and an open mind in regard to alternative ownership structures and unconventional approaches to venture capital investments. The language of the report should be English, so solid English language skills are necessary; German language skills can be beneficial.

The project study should start as soon as possible.

For more information and insights into the topic of the project study, see the [NY Times](#), the [Purpose Book including a chapter on venture capital in steward-ownership](#) or the text [Sex & Startups](#) by the Zebra Movement.

Please send your CV and a 1-page motivation letter to Maximilian Kremer (Maximilian.kremer@tum.de)