WHAT IT REALLY TAKES TO BE A VALUE-ADD INVESTOR

A good look in the mirror on how we, as impact investors, contribute to or constrain the success of our investee companies
INTRODUCTION

If we would have to express the responsibility of a shareholder to a mission-driven company in one overarching goal, it would be to support change-makers in their journey of building businesses that create solutions for a more sustainable future for both people and planet. We support them by supplying our capital, and we support them by being a mission-aligned investor. However, more often than we would like to admit, the companies we invest in experience us as a burden. What goes wrong?

How do we fulfil our role to the best of our ability?

“How to fulfil our duties as a responsible investor is a topic of constant debate and continuous improvement within our organisation. There is no simple answer.” Espen Daae, Ferd

To answer this question, we interviewed 20 experienced impact investors, who invest in a range of private companies in their early, growth and mature stages. These are their reflections.

Build a relationship with management
Know your value-add…and the limits thereof
Guide the company to the next level of maturity

Remain committed to high business standards
Be prepared to deal with sudden drawbacks
Make a conscious decision about control

Act on your responsibility as a board member
Be aware of which hat you are wearing
Know when it is time to go

Having roots in multigenerational family business, Pymwymic is strongly driven by the notion of family business stewardship. We are a servant to the mission of the companies we invest in, passing it onto a next generation of owners in a better shape than it came to us, while being a custodian to its mission.

“In our family business, we spent 20 full days to determine our mission and values. This is a major investment, but it also has an outlook of 25 years. It gives a strong sense of identity to the company.”
Piet Colruyt, Korys

“Investing for a positive future creates a different feeling, to be part of something bigger. The mission is more important than yourself and you are in service to that greater good.” Frank van Beuningen, Pymwymic
To support a company in realising its mission and building its business, we have learnt to form a partnership with management. We aim to become one of the cogwheels that is required to make it fly and take it to the next stage of maturity. Many investors speak explicitly about the time they invest to build a trusting relationship and how they consciously select those companies of which they feel management seeks a (sparring) partner.

“We invest in those companies with whom we feel we can form a partnership. Where there is belief that business decisions become better through dialogue with us as investors.” Jurriën Appers, Triodos Organic Growth Fund

“It is on us to forge a good relationship with our entrepreneurs, build trust to hope they feel that they can come to Blue Haven for help. This requires time and effort. More than flying in once per year.” Lauren Cochran, Blue Haven Initiative

“We have become very conscious about finding those entrepreneurs who both have the drive as well as the humbleness to ask for help where their own expertise falls short.” Anaisa Seneda, Pymwymic Member

It is a delicate balance to support those who have the bravery and independence of thought to start their own business. Especially in building and expanding a mission-driven business, you are often developing a new product, a different kind of governance, new business model or all of the above at the same time. You must be pretty stubborn to swim upstream in this way. Those who lead such companies often have strong personalities, which is something we want to cherish. At the same time, are these self-aware founders and founding families able to seek and accept advice when required? As an investor, we are much like a sparring partner to management: listening, asking the right questions and understanding their needs. Being a value-added investor therefore requires us to actively build a relationship and earn the trust so we can act as their trusted partner.

“We always start from the position that the entrepreneur knows the business 110% better than we do. As an investor, we need to understand how to help. Do they need our network? An extra pair of hands? Or just a sounding board?” Lauren Cochran, Blue Haven Initiative

“We must realise that building an impact company – or any company for that matter – can be a lonely journey. As investors, we need to be companions on this path.” Mike Velings, Aquaspark

“An investment is first and foremost a decision to entrust an entrepreneur to achieve success. It is with the mindset of working together with the entrepreneur that you can truly add value.” François de Borchgrave, KOIS Invest
While there are many ways to add value to an impact company, experience has taught us to begin with one important realisation before we step in: what is our own value-add to this specific company? Whether a private investor or a fund manager, we have our specific expertise, connections and skills to offer. What is the most urgent need to the company and how does this match to what we have to offer? Do we face scaling challenges in an increasingly competitive environment, dealing with governance issues, or still finding the right business model? We need to be honest about what we can add, and modest about what we cannot. All too often, we tend to overestimate our value-add, risking that we end up interfering with the operations of the company, rather than advancing it.

“You should start with the question: what skills do I have to elevate this company?” Tharald Nustad, Nordic Capital

“There is often so much passion from the side of the investor that he or she actually starts to get in the way of entrepreneurs.” Wim van der Beek, Goodwell

Even if impact is core to the company, we will keep pushing the limits by putting impact on the agendas.  
Jurriën Appers, Triodos Organic Growth Fund

Key areas of value-add
We have identified seven key roles that support the advancement of (impact) companies.

1. Activate strategic dialogue
The common expression is that building a business is like building a plane whilst you are learning to fly. When you are swayed with operational challenges, it can help to have an outsider perspective who can help you take a helicopter view.

“It is our task to broaden the perspective of the entrepreneur. To take him or her out of the daily rat race and thinking through strategic business issues.” Wim van der Beek, Goodwell

“As an investor, it is our goal to trigger discussion about what is best for the business. We want to secure the best interest of the company’s mission, even if this is not in the best interest of the entrepreneur.” François de Borchgrave, KOIS Invest

In the case of early phase companies, you will find yourself still searching for the right business model: is the business scalable? Should we build this new product, go into the next market? Also with more mature businesses, management is dealing with increased governance requirements, how to fund growth, pressure on the operations while scaling, and more.

2. Safeguard the mission
An often mentioned role to play as an impact investor is to be the guardian of the impact mission. We have invested because we are passionate about their cause. We can support in being a moral compass, as well as support development of the impact frameworks (Theory of Change, impact in articles of association, etc.). So, let us become the champion cheerleaders of the mission.

“Impact investors play an important role as a company scales. Growth with mission can challenge the entrepreneur. We can help them be a moral compass. We should never lose track of why we are doing what we are doing.” Frank van Beuningen, Pymwymic

“Even if impact is core to the company we invest in, we will keep pushing the limits by putting impact on the agendas, in the heads of management and in the operation.” Jurriën Appers, Triodos Organic Growth Fund

3. Provide access to your network
As impact investors we have a valuable network of industry experts, professionals and funders. Especially when investing in companies in our own industry, we often have a wealth of connections to offer that are otherwise not accessible to entrepreneurs.

“We have a network of experts in user experience, product and more. This expertise can be scarce in the markets where we invest in and is value we offer to investee companies.” Eliza Erikson, Omidyar
“Especially when it comes to my background in retail, I can easily put people in contact with each other. I make the link, and they take it from there.” Piet Colruyt, Korys

4. Secure a team of talent
You can have many impactful ideas. However, in order to be successful, you also need excellent execution. You need a team of talent working together. Ensuring that a team of talent comes on board, stays on board and works together is essential to the success of a business.

“We tend to put multicultural teams together. They all have different ways of viewing things and have to figure out how to work with that. It may take some time, but in the end, that pays off.” Stephen Brenninkmeijer, Willows Investments

“We pay a lot of attention to people. Especially because social entrepreneurs are so committed to impact, we often say that they burn out twice as hard as normal entrepreneurs and we need to avoid that.” Espen Daae, Ferd

5. Put the right governance in place
Many impact companies begin as an informal group of friends committed to the impact goals. As early initiatives grow into businesses, the level of professionalism needs to increase: management information, financial reporting, systems and processes and governance structures. All without losing the drive, creativity and agility of the company. As investors, we are familiar with such business formalities and know what is required to reach the next level of maturity.

“Early to growth stage companies can sometimes underestimate the power of good governance, such as clear roles and responsibilities, data driven decision making or simply complying to rules and regulation. The greater your ambitions, the more you will have to deal with professional organisations who expect ‘professional hygiene.’” Rogier Pieterse, Pymwymic

“As a financial institution investing in financial institutions across the globe, we are well equipped to support investee companies [financial institutions] advance their governance: what is the mandate of audit, which risk and compliance structures do you need to have in place, etc. We take an active role in contributing to such backbones of an organisation.” Caspar Sprokel, Triodos Investment Management

6. Plan for the next round of financing
As capital providers, especially as professional fund managers, capital planning, structuring deals, raising capital and connecting with co-investors is core to our daily business. It only makes sense that this is an essential part of our value-add to investee companies.

“You are usually prepping them towards next round of funding, where there are more stringent demands in terms of financial reporting, governance and more.” Eliza Erikson, Omidyar Network

“Entrepreneurs tend to underestimate how soon they need their next round of financing. As this is our daily job, we give them early warning signals and help them get prepared.” Rogier Pieterse, Pymwymic

7. Connect to peers
There is a magical kind of learning that happens when you bring together people who face similar challenges. Especially since being an entrepreneur can be a lonely journey, there is much to win from exchanging learnings.

“All of our portfolio companies meet a couple times a year. We arrange lectures and group work where they share similar challenges, such as building teams and financial modelling. At the same time, they get to know each other and share learnings.” Espen Daae, Ferd

“We organise investee gatherings and actively connect ‘younger’ investee companies to more mature ones who can serve as mentors.” Caspar Sprokel, Triodos Investment Management
GUIDE THE COMPANY TO THE NEXT LEVEL OF MATURITY

As investors we have seen companies grow and mature multiple times. We generally know what is around the corner and are familiar with growth pains. This experience can help entrepreneurs be prepared and advance through phases of maturity.

“Especially with early companies, Venture Capital partners or angel investors have seen it all before, know exactly what kind of troubles a company will have, which challenges exist with which kind of stage of maturity, common pitfalls etc.” Armin Steuernagel, Purpose Ventures

Just as the companies we invest in mature, our role as a shareholder will also evolve. The younger a company is, the more hands-on our role probably is. We want to be consciously progressing from this hands-on role towards one of coaching, supervision and reflection.

“You need to be progressing a company to a place where you are much less needed. You want them to reach a much better place than they were in when you stepped in.” Eliza Erikson, Omidyar Network

“We want entrepreneurs to become independent of our support. So, we encourage them right from the start to build a business model that can become sustainable with time.” Espen Daæe, Ferd

“You need to be progressing a company to a place where you are much less needed.”

Eliza Erikson, Omidyar Network
Impact investing is about ‘doing good’. It can then become a challenging question: how tough should we be in pushing for business success? To most impact investors, the answer to this question is crystal clear: long term impact can only be realised if we build a successful business which is financially sound.

“Many people come into the field saying: ‘we do not have to do too good business, because we are doing impact’. But, if you really want to have an impact, you need to build a lasting business.” Tharald Nustad, Nordic Capital

“There are no different rules for building a mission-driven business. You have to perform. If something does not work, change it and move on. Do not let things get worse.” Stephen Brenninkmeijer, Willows Investments

“It is an often-heard excuse: ‘but you are here for the impact, why are you being so tough?’ Really, for the best of the impact, we should not weaken our diligence, decision making, and decisiveness when it comes to impact companies.” Liesbet Peeters, Volta Capital

Especially when dealing with people in the company, it can be uncomfortable to make tough decisions. What to do when employees are not performing well? This becomes even more difficult when we are dealing with key persons or even founders – who have successfully brought the company to where it is today – but are now preventing the company from advancing to the next level. It may very well be that we need to make tough decisions in the best interest of the company’s mission.

“There are no different rules for building a mission-driven business. You have to perform.”

Stephen Brenninkmeijer, Willows Investments

“What makes is difficult in the impact scene is that it feels more difficult to be tough on employees. However, in the best interest of your business - and therefore of the impact - you need to take your losses if somebody is underperforming.” Rein Goedkoop, Pymwymic Member

“It’s a rare person, who is able to build a company from scratch, out of nothing, navigate it through the most challenging dynamics, push it to professionalism, scale it to maturity and then potentially sell it.” Eliza Erikson, Omidyar Network

Pymwymic Cooperative
Driving positive change by building best in class impact businesses

“We commit to creating a positive change by investing in companies that make a difference. To us, realising impact means building a lasting business: adding real value to customers and being the best in the world in what we do. We seek and attract the best people, deliver the best service, build the best products and do this in the best possible way for the environment and all those involved in the process. Sometimes, this requires that we face brutal facts and make tough decisions. But it is exactly because we want to realise a lasting impact, that we hold a high standard to ourselves and our investees.”

Rogier Pieterse, Pymwymic
BE PREPARED TO DEAL WITH SUDDEN DRAWBACKS

When investing in impact companies we need to be prepared to deal with unexpected events. Keeping your eye on the ball – i.e. the mission – while at the same time navigating through change. While this is the case for any kind of business, impact or not, there are three factors which increase the dynamics of investing in impact. Firstly, as private investors, chances are we are investing in early to growth stage companies. This means we are not dealing with a steady state business and change is around the corner sooner than we may realise.

“You often know one thing for sure: things are going to change along the way: the business model, the product, even the customer.” Maarten van Dam, Pymwymic

“I often tell entrepreneurs whom I coach: in a year’s time, your business model will have evolved at least twice; you need not to worry about that, it is normal. It will be a rollercoaster, so be prepared.” Rein Goedkoop, Pymwymic Member

Second, impact companies are often pushing the frontiers. They are trying to find new solutions to old problems, developing a new kind of business model, or building a new supply chain. In these cases, you are likely to come across more unexpected events and it will generally take longer to mature and succeed.

“In the impact world, you are often experimenting new business models and crazy solutions. Therefore, it is important that the group of investors is ‘shock absorbent’. That do not walk away and think it is a failure at the first shock.” Wim van der Beek, Goodwell

“We generally see that building an impact business takes longer than expected. Entrepreneurs are pioneering, and things do not always go as planned. Investees often need to come back to us for follow-up rounds of funding.” Michelle de Rijk, Doen

Third, when operating in developing regions, there is far less stability in the general ecosystem in which the company operates, adding volatility and vulnerability to your business model.

“You often know one thing for sure: things are going to change along the way.”

Maarten van Dam, Pymwymic

“When investing in developing countries, companies tend to operate in unstable environments. You need to invest in the both the company itself and the wider ecosystems around the company: from its accountant to its customer base.” Wim van der Beek, Goodwell

“I have been working in East Africa over a decade and the things that go wrong continue to shock me. We do very comprehensive risk analysis during our due diligence and still we underestimate what can go wrong.” Lauren Cochran, Blue Haven Initiative
One of the most common struggles, is finding the right balance in how much steering power we should take as an investor. Especially when we are a majority shareholder, we are in a position of power and can push for certain decisions. With power, comes the responsibility to use it wisely.

The degree to which investors take an active and controlling role varies greatly amongst investors. Usually, this means taking upon a board position. We have learnt that sitting in the board has the advantage that we can take a helicopter view. But we have also learnt that we only have a limited view of the company, we are not ‘in the field’ ourselves. Pushing for certain decisions can then become dangerous.

“Some investors are not the best equipped to be board members and you should not want to decide on things that you do not know too much about.” Tharald Nustad, Nordic Capital

“In general, we do not take board seats ourselves, simply because we believe in many cases that we are not the best person for the job. Instead, we search for somebody in our network who has a specific value-add to the company.” Michelle de Rijk, Doen

Some investors actively seek new governance structures to balance the controlling powers of a company. They experiment with different formats, as to secure representation of the right stakeholders in a controlling body.

Purpose Ventures pushes this topic even further and actively puts ‘the power question’ back on the table.

“The concept in which ownership equals control is more than 2000 years old. Money is not always the same as ability. We believe that the power should lie in the hands of people who feel connected to the business and committed to its purpose.” Armin Steuernagel, Purpose

### Case example 1: Ferd’s triangular power mechanism

“Because we are often the largest provider of capital and our entrepreneurs are small, we find it important to separate investment and control. To balance the ownership, we have created a triangle mechanism of: 1) Chairman, 2) Managing Director and 3) a representative from Ferd Social Entrepreneurs. This group will meet regularly to discuss topics of strategic importance to the company.

We nominate board members who are independent of the investment decision, either from elsewhere in the Ferd organisation or from our network, and instruct them to hold the company’s interest first. As Ferd Social Entrepreneurs, we are normally observers on the board. This means we receive all board reporting, participate in discussions, and provide support where needed, but do not vote. This way we build a different kind of relationship, as a non-controlling advisor.” Espen Daae, Ferd

### Case example 2: Steward Ownership exemplified by Bosch

Bosch has successfully been functioning with the below governance model since 1964:

- 8% of shares are owned by the Bosch family with dividend right; they represent 7% of voting power
- 92% of shares are owned by the Robert Bosch Foundation; they include dividend rights, but no voting rights
- 0,01% of shares are owned by ten stewards, who hold 93% of voting power, but have no dividend rights
- These ten stewards consist of: four current and former Bosch C-level managers and six business professionals who have known Bosch for a long time and bring an outside perspective

They believe that the question is first and foremost: who is the best person to support company in a controlling role? Control should then be allocated to those who are most involved with and capable of leading the organization, independent of who has invested. In their own investments, Purpose Ventures invest without taking a controlling position. Instead, they support the development of a controlling mechanism – usually a board – consisting of stakeholders and stewards of the company.

“In my own experience, taking the power dynamics away always helps the learning process. I have found it easier to really listen to what somebody has to say if there are no strings attached. There are no cosmetics blurring the message.” Armin Steuernagel, Purpose
When a board functions well, it can make a significant difference to the success of a company. While there is a lot to say about good functioning boards, a few good practices mentioned are:

- Secure a safe space to can bring up tricky conversations
- Focus more on strategic discussion and less on reporting
- Address challenges whilst being supportive
- Have an independent chairman to ensure truly independent decision making
- Have representatives of all stakeholders
- Have conflict of interest procedures in place
- Hygiene such as: solid reporting, minutes properly taken, being prepared and available

“It is threading the needle between understanding things go wrong outside management’s control versus saying: ‘actually we messed up this quarter; what are we going to do differently next time?’” Lauren Cochran, Blue Haven Initiative

“We formulate guidelines on roles and responsibilities: what should be dealt with by the board and what should be handled by management? The process of jointly putting it down on paper, is in itself a worthwhile investment for your relationship.” Espen Daae, Ferd

On the other side of the spectrum, there are common pitfalls:

- Board members interfering in matters whilst they have little knowledge
- Board members who stick around long after their value-add has diminished (see ‘Know when it is time to go’)
- Boards which have become too large, leading to each individual board member feeling less committed
- Under or over-representation of certain stakeholders
- Issues not being brought to the board room; everything happens in the side line
- Conflicted shareholders, who have other interests than the success of the business (see ‘Be aware of which hat you are wearing’)
- Too much ego in the room; boards members who speak too much
- Interpersonal dynamics within board members
- Representatives from traditional financial institutions focussing only on financial returns or forcing the company into too much red tape

“Especially in private businesses, most board members are investors. Eventually, these investors will also look at their own interest, causing less balance in the board.” Stephen Brenninkmeijer, Willows Investments

Triodos Investment Management

**Board membership: part and parcel of our investment approach**

“Our board membership is an expression of effective shareholder engagement which is an integral part of our investment process. Our active investment approach supports investees to build a long-term strategy, a sustainable, solid business model and good corporate governance practices. We have designed the following practices to keep improving our role and value-add as board members:

- **Code of Conduct:** We are led by our Code of Conduct in which a set of rules is laid down outlining the rights, responsibilities and proper practices of candidates acting in a board position.
- **Training:** We offer training to all Triodos IM employees acting as board members, and to external experts who fulfil this position based upon our nomination.
- **Mentorship programme:** Triodos IM employees who are less experienced acting on a board are mentored by more experienced peers.”

Caspar Sprokel, Triodos Investment Management
As investors, we all wear multiple hats. Whether we are both a shareholder and a board member, raising capital for a competitive project, founders to the company, customers or suppliers. We all have other interests. As a responsible shareholder, we see it as our duty to act in the best interest of the company. This means we are aware of our hats and realise which hat is currently steering our behaviour.

“It is often a delicate and complicated situation when an inner circle, such as a founding family, is deeply interwoven into the business. Risk is that lines become blurry, management becomes an extension to the board and necessary discussions and oversight fail to take place.” Caspar Sprokel, Triodos Investment Management

“Especially when you are dealing with angel investors, you often see one leading angel investor with clear intentions and one or more follow investors which might have different intentions or are just following the lead. Especially when it gets rough these follow investors could become loose cannons.” Maarten van Dam, Pymwymic

BE AWARE OF WHICH HAT ARE YOU WEARING

Know when it is time to go

“We are an open-ended fund. However, there is often a natural point where another – often much larger investor – takes our place as an investor. These investors have deeper pockets, more network, more specific, etc. If this is the case, we will make way.” Casper Sprokel, Triodos Investment Management

“Before you become an investor, you should have already planned your exit. When are you not the right person anymore to be involved? When does your added value end?” Wim van der Beek, Goodwell

Case example: Koninklijke Maatschap de Wilheminapolder
The Wilheminapoloder is a 1900-hectare farm in the South of the Netherlands founded in 1809. It is owned by 400+ shareholders, which are represented by a board of five. Every seven years this formal Partnership (Dutch: Maatschap) is renewed in a General Meeting by re-confirming their ‘vowels’. The tradition is asking themselves three questions:
• Do we want to continue together?
• Do we need to re-adjust our governance?
• Is our strategic plan still valid?

“We often see that private investors think they are more valuable than they actually are and stay longer than they should.” Lauren Cochran, Blue Haven Initiative
As impact investors, we are values-driven and hold ourselves to high standards. In essence, being a mission-driven investor should not be that different from being a conventional investor. We apply the same business scrutiny, face similar challenges, and struggle to find balance. Supporting mission-driven companies in realising their impact goals, is why we became investors to begin with. We measure our success by the degree to which we contribute to a positive change of the food system, build a new value chain, develop innovative solutions to give people access to basic needs, or invent a new process in an otherwise polluting industry.

We cannot avoid that we will make mistakes, but promise to keep reflecting on our actions and learn from our wrongdoing. We are committed to make a difference. Will you join us?

Gratitude
We are grateful for the contribution of:
- Jurriën Appers, Fund Manager of Triodos Organic Growth Fund at Triodos Investment Management
- Wim van der Beek, Founder & Managing Partner at Goodwell Investments
- Frank van Bauning, Founder of Pymwymic
- François de Borchgrave, Managing Partner at KOIS Invest
- Stephen Brenninmeijer, Founder of Willows Investments
- Lauren Cochran, Managing Director at Blue Haven Ventures
- Piet Colruyt, Impact Investor & Board member at Korys
- Espen Daae, Portfolio Manager at Nord Social Entrepreneurs
- Maarten van Dam, Investor Relations at Pymwymic
- Eliza Erikson, Investment Partner at Omidyar Network
- Rein Goedkoop, Pymwymic member & private impact investor
- Noëlle Haitsma, Venture Partner at ScaleUpNation
- Tharald Nustad, Founder of Nordic Impact and Katapult
- Liesbet Peeters, Managing Partner at Volta Capital
- Rogier Pieterse, Managing Director at Pymwymic
- Michelle de Rijk, Investment Manager at DOEN Participaties BV
- Caspar Sprokel, Head of Equity Investments Emerging Markets at Triodos Investment Management
- Armin Steuernagel, Co-founder at Purpose Ventures
- Anaisa Seneda, Pymwymic member & private impact investor
- Mike Velings, Founder & Managing Partner at Aqua-Spark

Further Reading
- Family Business Stewardship, Institute for Family Business, 2011, link here
- Steward Ownership, rethinking ownership in the 21st century, Purpose, link here
- Board members that propel, not protect, ScaleUpNation, 2018, link here


About Pymwymic
We are a community of impact investors. By investing together, we support for-profit companies that create breakthrough solutions to our most pressing global needs. We interact on our lessons learned and connect through frequent community events, peer-to-peer sharing and workshops. www.pymwymic.com.

About Triodos Investment Management
Triodos IM is a globally recognised leader in impact investing – offering investable solutions to address today’s most critical sustainability challenges. With 25+ years of experience, we have established global expertise across Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture, and Impact Equities & Bonds. www.triodos-im.com