How virtual shares can improve the way startups reward their communities

For much of modern history, capitalism primarily focused on the interests of a select group: shareholders. The primary aim was to maximise shareholder value, often at the expense of other stakeholders such as employees, clients, or subcontractors.

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This form of capitalism was usually fairly unidimensional, only putting the focus on profitability and stock prices - and disregarding other aspects that equally contribute to a company’s growth. Indeed, the potential of the broader community of stakeholders was often overlooked, even though their collective expertise, loyalty, and insights held immense untapped value.

The shortcomings of traditional stakeholder capitalism

With the rise of multinational corporations, it became clear that companies had responsibilities beyond just their shareholders. The broader ecosystem in which a company operated began to matter: we called it "stakeholder capitalism”. The startup world in particular is no stranger to stakeholder capitalism, as a framework that requires companies to prioritise a broader stakeholder group — investors, employees, and partners — in their decision-making processes.

But this model is still too rigid and too flawed, with a fundamental mismatch between the notion of community and user-centric design that characterise startups, and traditional equity distribution. Because traditional stakeholder capitalism tends to overlook contributors such as early adopters, influencers, and those everyday champions who rally behind the company's vision. And aren't those as instrumental to product and business success as investors might be?

Additionally, even if you did want to reward all these people via traditional shares, it would come with regulatory challenges, cap table complexities, and a range of other potential misunderstandings. Not ideal for startups, who have limited resources to deal with those issues. Finally, and more broadly, we live in a world where inequality keeps rising, with the benefits of capitalism being shared by a privileged few - surely innovations in technology can do better to improve the status quo.

I think it's high time we questioned stakeholder capitalism and think about *innovative ways of redistributing not just wealth*, but also influence and agency.

The rise and mechanics of virtual shares

It's already happening. I'm observing an interesting shift in the startup world right now, which my company, *KOOS*, has privileged visibility on: companies are starting to realise that there are better ways to reward their communities. In particular, they have begun to leverage virtual shares to reward contributors, and to adopt more inclusive business models as a consequence - with community members being made co-owners.

At the core, virtual shares are mechanisms to reward contributors without the hassle of traditional equity distribution. Unburdened by many of the regulatory blockers that traditional shares come with, virtual shares offer the benefits of equity without the usual headaches. And while they're virtual, they can hold very real value, as they can be tied to rights such as company sale rights, liquidation rights, or even dividend rights, based on how the issuing company designs them.

For instance, there are lots of benefits to turning just your customer base into shareholders via virtual shares – some of which are:

- Their interests become more closely aligned with the company's success. Shareholder-customers are likely to become more engaged and more vocal advocates for the company - it’s in their interest to create more revenue for the brand they co-own.
- They fully participate in building a better product: having a say in things makes them more likely to provide constructive feedback, which is invaluable for startups looking to continuously improve their product.
- The shareholder-customer relationship is likely to be more long-term and durable because it’s more based on trust and transparency.
- You create a sense of inclusivity and democratisation, giving customers a chance to participate in the company's success and potentially benefit from its growth.

Companies wanting to set those up will need to first decide who can earn virtual shares based on what actions – such as referring customers, promoting the brand, or hitting specific milestones. Then they must determine how they're allocated, whether it's time-based (rewarding early contributors more), quantity-based (rewarding top performers), or quality-based (rewarding those who get the best feedback). After that, the legal framework and issuance mechanism can usually be provided by platforms that can adapt to local jurisdictions.

This isn’t just about a financial reward (like the affiliate model); it’s about a mindset shift. Because when stakeholders, whether they are customers, or early users or long term advocates, feel genuinely invested in a company's future, they bring more than just capital; they bring commitment, creativity, and advocacy. They become an actively involved community rather than passive users.

What’s next?

The increasing importance of community-based marketing and the development of new ways of engaging with and rewarding communities in the digital space means that community stakeholders will become more and more central to a company's trajectory. Companies will start to recognise what engaged groups can bring them, and innovations like virtual shares could become mainstream. For startups, in particular, who often find themselves in situations where immediate payment might be challenging, there is a willingness to commit to higher payments in the future, once they achieve success. This flexible approach to financial commitments will be advantageous for both startups and their stakeholders, ensuring long-term collaboration and shared growth.

Global challenges, from sustainability to inclusivity, will force businesses to adopt more flexibility in financial rewards and consider differently their broader stakeholder groups, hopefully contributing to creating an overall more equitable and interconnected global economic system.

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