Charities win as consulting firm shakes up the model

By **JARED LYNCH**, REPORTER
11:04AM AUGUST 14, 2022 • 2 COMMENTS

What does a boutique consulting firm have in common with one of the world's best-known luxury watch brands? Or, for that matter, with brands like Lego or Heineken?

It's an unusual question but one that the leaders at Melbourne advisory outfit Right Lane, are keen to answer.

Right Lane – a small advisory partnership employing about 40 people – is a far cry from its bigger global competitors PricewaterhouseCoopers, KPMG, Ernst & Young and Deloitte. But it is taking a big step in becoming the first management consulting firm in Australia to adopt a foundation ownership structure – just like Rolex et al.

The new model places 55 per cent of the firm into a foundation which will invest dividends into supporting charities and projects across health, education, social welfare, human rights, environment and public benevolent institutions. The remaining 45 per cent of the firm will be retained by the current partners.

While foundation ownerships are common across northern Europe – Rolex, Lego, Bosch, Ikea and Heineken are among the thousands of companies to adopt such a structure – they are less common here.

The biggest example is the [Paul Ramsay Foundation, which owns about 19 per cent of shares in ASX-listed hospital behemoth Ramsay Health Care].

It was formed in 2006, bequeathed $3bn by founder Paul Ramsay in 2014, and has become Australia's biggest philanthropist. The foundation has said it is willing to sell its stake after US private equity titan KKR lobbed a $20bn takeover offer for Ramsay Health Care earlier this year.

Right Lane founder and outgoing chief executive Marc Levy struggles to see why more companies haven't introduced a foundation ownership model. He reels off the benefits, citing

Oxford and Copenhagen Business School research. Despite being longer lasting than conventional ownership structures, foundations are tax exempt.

"There are 1000 foundation-owned companies in Germany, 1000 in Sweden, and about 1350 in Denmark, where companies owned by foundations account for about 20 per cent of GDP," Levy says. "It's not a new idea. It's been around for about 130 years. Zeiss, the optics company, was the first organisation to be foundation owned. Foundation ownership is part of a broader movement and governance towards steward ownership."

Levy says such companies have a higher survival probability than conventionally owned companies and have better reputations.

"We are now focused on the next phase of our development as a firm which we believe will show other professional services firms that there are more progressive ways of doing business," he says.

In a study released a decade ago, Steen Thomsen of the Copenhagen Business School and Henry Hansmann of Yale Law School wrote: "By their very nature, industrial foundations are long-term investors, and hence presumably suffer less from any myopia or short-termism that might be induced by the stock market. Moreover, the attenuated profit motives of foundation-owned firms may make them more likely to maintain a steady course than profit-seeking owners. While this could reduce short-term profits, it may create long-term value."

In a more recent study published in 2017, Thomsen wrote: "Altogether, the evidence indicates that foundation ownership is associated with more responsible business behaviour towards employees."

Right Lane's move comes as environmental, social and governance issues (ESG) dominate the headspace of corporate leaders. According to KPMG's latest global survey of chief executives, 42 per cent "admitted they were struggling to articulate a compelling ESG story to their stakeholders".

The stakes are high. Investors increasingly are demanding greener credentials.

Just look at how one of the biggest pension funds in the US, the California State Teachers' Retirement System, helped successfully advocate boardroom change at ExxonMobil in an effort to make the multinational energy behemoth confront climate change. And Right Lane sees this demand across its client base.

Chiara Lawry, who has replaced Levy as chief executive, says ESG is a "hot topic". "A large part of our practice is in industry superannuation and it is of course a concern there and for those clients," says Lawry, who previously worked at the Boston Consulting Group and the Department of Prime Minister and Cabinet.

"What's interesting is what we're seeing is people are obviously concerned about environmental issues but across the spectrum, people are wanting to take a more sophisticated and comprehensive look at what it means to think about ESG. The days of being able to (pay) lip service to these topics are gone – whether it's activist shareholders, the community at large or employees, there is an expectation of accountability, and that's growing and that's what we are seeing with our clients."

Under the restructuring deal, the partners in Right Lane placed 55 per cent of their holdings into the newly formed Right Lane Foundation, a not-for-profit charitable purpose public company. The foundation has its own board which will operate independently of the consulting firm. In effect key staff in the partnership sold down their shares to the foundation which will use dividends earned over the next few years to pay for its majority ownership shareholding in the consulting business. After that, the foundation will invest dividends into supporting various charitable organisations and projects.

JARED LYNCH, REPORTER

Jared Lynch is a business reporter with a career spanning 15 years across national publications. Jared is based in Melbourne and writes on agribusiness, healthcare and gaming. He also has extensive experience i… Read more