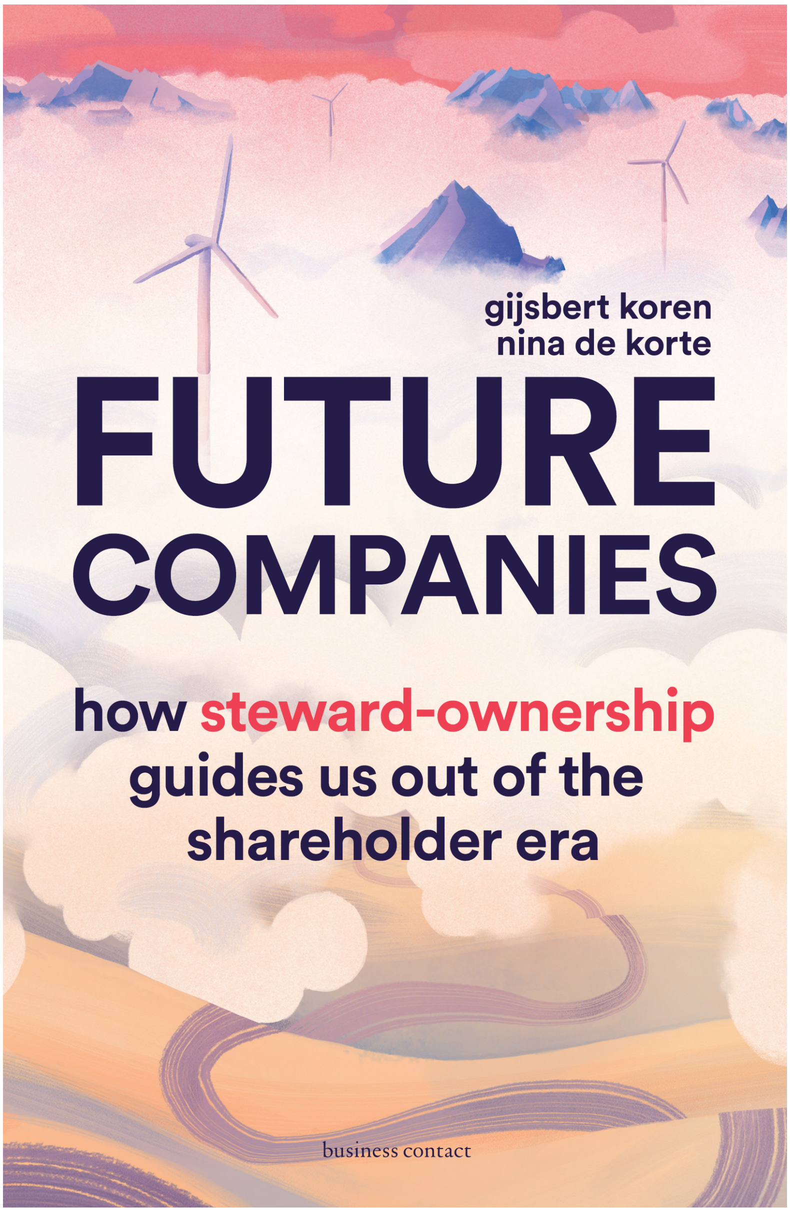

This is a summarized and translated excerpt from the first chapters of the book *Toekomstbedrijven* by Gijsbert Koren and Nina de Korte, published in 2023 by Business Contact in Amsterdam.

The right business form

In 2020, during the global pandemic, Booking.com, a profit machine with last year's earnings over 5 billion dollars, was seeking taxpayer support. Like many others, entrepreneur Niels Meijssen was shocked. Meijssen shared his disbelief in a Linkedin post and promised to launch an alternative booking platform if enough people were interested. His post received almost 40.000 reactions. Many people shared that they were also annoyed with Booking.com's manipulation of room availability and exploitation of its monopoly position, charging hotels increasingly higher fees. It was clear to Meijssen: There was room for an alternative and later that year he launched fair hotel booking platform Beterboeken (now Time to Momo).

Concerned about avoiding the fate of Booking.com and others, Meijssen and his co-founder Mart Evers sought advice on avoiding mission drift in the long-term.

An honest booking platform?

Founded in 1996 by Geert-Jan Bruinsma, Booking.com revolutionized online hotel bookings. Initially, a collaboration with existing hotel comparison websites drove its growth[1, 2]

Soon, disagreements between shareholders led to the forced buyout of Bruinsma and his supporters. In 2005, Booking.com was sold to Priceline.com, becoming one of the world's largest booking platforms. The commission-based model, which started at a fee of 5%, is now ranging from 15% to 25% commission. Some hotels are extremely dependent on Booking.com, making it next to impossible for them to stop working together with Booking.com.[3, 4]

'Capitalize the gains, socialize the losses'

Despite its substantial 2019 profits and financial engineering, including stock buybacks and tax negotiation, Booking.com applied for €65 million in wage cost compensation when the coronavirus spread across Europe in 2020. Booking.com's actions prompted public outrage.

The case of Booking.com exemplified a common trend among publicly traded companies. While facing the challenges of the pandemic, the company had alternatives, such as issuing previously repurchased shares, to generate funds. However, it chose to seek government aid, leading to widespread public discontent. "We're capitalizing the gains, and socializing the losses," stated renowned economist Joseph Stiglitz. His statement highlights the deviation from capitalism's original principles. This behavior contradicts the notion of companies taking risks and carrying the consequences of their actions.[5]

More than words

The founders of Time to Momo aimed to avoid certain issues they deemed part of the DNA of Booking.com:

1. Control and Influence:

- At Booking.com, decision-making power lies with the shareholders, who are incentivized maximising profits on the short term.
- Daily operations are overseen by a board appointed by the shareholders, with incentives tied to shareholder satisfaction, aligning operations with the interests of the shareholders.

2. Profit Orientation:

- Booking.com is primarily perceived as a dividend generator, with large American asset managers using their voting rights to maximize profits.
- Hotels bear high commissions, and financial engineering is employed to minimize taxes, increase stock prices through buybacks, and keep low reserves.
- Shareholders prioritize maximizing returns, potentially at the expense of hotels, the company, and society.
- Employees may feel like mere instruments for shareholder value creation, especially evident during mass layoffs in the middle of the pandemic, even after receiving government support.

3. Mission vs Purpose:

- Booking.com projects a friendly image with a mission to "make it easier for everyone to experience the world.", but its real purpose seems to be maximizing shareholder value.

Time to Momo adopted steward-ownership to reshape the rules:

1. Decision-Making Authority:

- At Time to Momo, decision-making authority lies with stewards, not external shareholders.
- Stewards manage voting rights, embracing the mission of being a fair booking platform.

2. Mission-Driven Profit Allocation:

- At least 50% of Time to Momo's profits are dedicated to the company's mission.
- This allows the company to invest significantly in innovation, build healthy reserves, and possibly reduce hotel commissions.
- The remaining profit is shared among founders and investors, with a predefined maximum compensation for founders.

3. Mission as the Core Purpose:

- At Time to Momo, the mission is not a marketing slogan, but the basis for decision making.
- Every decision made by stewards prioritizes the goal of being a fair hotel booking platform.

Mission anchored in the company DNA

The founders of Time to Momo wanted to ensure that their good intentions couldn't be traded for profit motives. The founders believed that a mere promise was not sufficient. Steward-ownership provided a solid foundation to make sure their mission would stay center stage.

But to make the mission a reality, Time to Momo needed investors as well. Meijssen and his co-founder turned to their large supporter base and in 2020, Time to Momo launched a crowdfunding campaign, raising twice the initial goal of one million euros from over 1.500 investors to kickstart the platform. In 2022, a second crowdfunding campaign attracted over 2.000 investors, raising an additional 2.3 million euros to grow to 50 European cities.

Time to Momo has four types of shares:

1. Steward Shares:
- No profit rights but voting rights.
- Held by stewards to serve the mission and continuity of the company.

2. Founder Shares:
- No voting rights but profit rights, up to a specified maximum and expiring after 10 years.
- Held by the founders.

3. Investor Shares:
- No voting rights but profit rights.
- Investors and founders combined cannot receive more than half of the profits.

4. Golden Share:
- Issued to a foundation to safeguard the steward-ownership structure.
- Grants veto power to block structural changes and for instance prevents founders from adjusting their profit rights using their voting rights.

It starts with the company structure

To register a company, one must choose a legal structure, a decision with fundamental implications on control, liability, and profit distribution. Many entrepreneurs choose for a private limited company (a B.V. in the Netherlands), where ownership shares are not freely transferable and require a notary's involvement. Another option is a public limited company (a N.V. in the Netherlands), where shares are freely transferable, typically on a stock exchange. The historical roots of these structures trace back to the Dutch East India Company (VOC) which was founded in 1602 and is considered one of the world's first multinational corporations.[6]

The VOC pioneered the separation of ownership and responsibility through limited liability, allowing a diverse group to invest in the company without being personally accountable for its actions. This structure, established by the VOC, became the global norm for the limited liability company.

With the growth of trade, the need for a platform facilitating the easy transfer of shares arose, leading to the establishment of the merchant exchange in 1611, a predecessor to the Amsterdam Stock Exchange. The VOC can be seen as the world's first publicly traded company.

Despite societal changes since the founding of the VOC, like the abolition of slavery, little evolution has occurred in business structures over the centuries. The founders of Time to Momo however recognized the need for a modernized form that aligns with contemporary values and intentions. They advocate for steward-ownership, a key to creating a fair alternative to platforms like Booking.com by placing the mission at the forefront of the company's structure.

While the success of Time to Momo is uncertain, since it’s still a startup, the company is designed to resist being overtaken by shareholders prioritizing profit maximization.

Steering wheel for sale

'No mandate'

Shell is committed to the energy transition, claiming to contribute to a sustainable future[7]. However, only 14% of its 2022 investments was channelled towards sustainable energy[8], contradicting the Paris Agreement goals[9]. For CEO Ben van Beurden it's a challenge to prioritize green innovation over lucrative fossil fuel investments[10]. Van Beurden emphasizes the legal obligation to maximize shareholder value, a duty to which CEOs are bound[11, 12]. Shareholders, as company owners, expect returns either through dividends or stock price increases. This sheds light on the complexities CEOs face in balancing sustainability and shareholder demands.

We are all investors

The depiction of aggressive, profit-driven investors oversimplifies the complex reality. Institutional investors, like pension funds and insurers, are major shareholders of companies like Shell, with about 80% of stock capital managed by them.[13, 14] These institutional investors focus on short-term returns, as their external asset managers are primarily assessed based on short-term investment performance. Consequently, they often oppose proposals for increased investment in renewable energy during shareholder meetings, prioritizing immediate profits over long-term sustainability. Despite pension funds' long-term objectives, their reliance on short-term-focused asset managers perpetuates institutionalized short-term thinking, hindering sustainable investments. This short-term mindset, driven by the need for immediate returns, poses challenges for addressing long-term issues like climate change, even when it aligns with the interests of pensioners themselves. The lack of consistency in investing in environmentally damaging industries while advocating for environmental responsibility is becoming more apparent and is drawing attention. For instance, pension fund ABP, responsible for government employees' pensions, faced pressure from its members to reduce investments in fossil energy by the end of 2021[15]. However, such divestments often involve selling shares to other shareholders who maintain the same short-term profit-oriented approach. This systemic issue reflects the challenges faced by companies like Shell, whose leadership, despite personal aspirations for change, operate within the constraints of shareholder demands and the existing capital market.

Making Unilever a sustainable multinational

Paul Polman served as the CEO of Unilever from 2009 to 2019, a major international conglomerate known for its food and personal care products. Unilever's operations have significant positive global impact like access to hygiene products. Yet Unilever also contributes to issues like deforestation, poor working conditions, and plastic pollution[16, 17]. Despite facing criticism for environmental concerns, Polman aimed to prove that a publicly traded company could be both profitable and sustainable. Polman set a goal for Unilever to align with the UN Sustainable Development Goals, trading long-term sustainability targets for short term profitability. The company worked towards reducing its carbon footprint, adopting more recyclable packaging[18], and achieved positive results[19]. However, not all shareholders were pleased, with some preferring increased profit margins over investments in sustainability programs.

Polman faced a significant challenge during a potential hostile takeover by Kraft Heinz in 2017.[20] Some shareholders were inclined to accept the offer, prioritizing short-term financial gains over Unilever's sustainability goals. Polman managed to avert the takeover through strategic efforts, but the experience highlighted the tension between long-term sustainability and the pressures of short-term shareholder interests.

Polman's time at Unilever showcased the ongoing struggle within publicly traded companies to balance short term profitability with long term sustainability[21]. The pressure from short-term-focused shareholders and the dominance of financial goals often challenge efforts to prioritize social and environmental responsibilities.

The activist shareholder

A few years after Paul Polman's departure, another CEO, Emmanuel Faber of Danone, faced a similar challenge in 2021. Despite initial support for Faber's long-term vision and efforts to make Danone a socially responsible company, he was removed by a majority of shareholders. This was driven by dissatisfaction with the company's financial performance. Two small shareholders, holding 0,05 percent of the shares, played a significant role in this decision[22], showcasing the influence a minority can have in a system where institutional investors often agree they should align on a shared principle: maximizing shareholder value.

Faber's leadership, similar to Polman's, emphasized a broader societal role for the company. While Faber was CEO, Danone received B Corp certification, a notable feat for a publicly traded food company. However, Faber's removal indicates the dominance of shareholder primacy—the idea that maximizing profits for shareholders is a company's primary obligation. This shareholder-centric model, originating from the shareholder capitalism ideology, places CEOs at risk of dismissal if decisions prioritize factors other than immediate financial gains for shareholders.

Ford vs Dodge

In 1919, Henry Ford faced a legal battle over his decision not to distribute profits to Ford Motor Company shareholders, opting to reinvest in the company's growth. Despite Ford's belief that this would benefit the business in the long term, shareholders, particularly the Dodge brothers, disagreed. The U.S. Supreme Court ruled in favor of the Dodges[23, 24], establishing the principle that companies are primarily organized for shareholder profit. This landmark case, Ford vs. Dodge, shaped perceptions of corporate duties and the fundamental purpose of businesses: to generate value for shareholders above all else.

The spread of shareholder primacy

In 1970, Milton Friedman's essay "The Social Responsibility of Business is to Increase its Profits" marked a pivotal moment in the shareholder era. Friedman argued that a company's sole societal responsibility is to serve its shareholders[25]. This perspective, known as shareholder primacy, became the guiding principle for economic and business education, shaping the worldview of generations of corporate leaders. The American model of shareholder primacy has also become dominant in the Netherlands, despite the country's social market economy and historical association with the Rhine model, emphasizing collaboration among government, businesses, and employees, in contrast to the more liberal values of the Anglo-Saxon model. The gradual shift towards the Anglo-Saxon model in the

Netherlands has led to consequences such as dismantling the welfare state, privatization of utilities, and increased market-oriented policies in areas like healthcare and the labor market. This shift has created a tension between the financial interests of shareholders on one side and the interests of customers, patients, and employees on the other and mainly served the interests of shareholders.[26, 27, 28]

The agency-problem

Corporate leaders like Polman and Faber aimed to guide Unilever and Danone towards being a more sustainable company. When executives deviate from serving just shareholder interests (like Polman and Faber), shareholders regard this to be a problem: also known as the 'agency problem'. Executives, acting as agents for shareholders, often receive stock-based rewards to align interests, hoping to decrease the agency problem. Surprisingly, some leaders still try to prioritize other goals over short-term financial gains, swimming against the current. Both executives and investors are trapped in this relationship, because most investors also have a similar relationship with their own principles, like pension holders.

The success of Carlsberg

Carlsberg, led by Dutch CEO Cees 't Hart from 2015 to 2023, distinguishes itself by having a unique ownership structure. While publicly listed, the majority of control lies with the Carlsberg Foundation, holding 76% of voting rights.[29] Founded by Jacob Christian Jacobsen in 1876, the foundation safeguards Carlsberg's mission of perfecting the art of brewing. It prevents hostile takeovers and enables long-term investments and innovation. Unlike shareholder-driven competitors, Carlsberg's steward-owned model ensures independence while achieving financial success. The company's success, with a 15% annual profit margin and outperforming competitors[30], showcases how a mission-centric approach can yield exceptional financial results. Steward-owned structures, which are common in Denmark, serve as protection against activist shareholders, fostering stability and mission-driven success. Carlsberg's story exemplifies how a large enterprise can prioritize its mission while maintaining financial prosperity.

'Earth is now our only shareholder'

Patagonia, a leading outdoor clothing brand, has also embraced steward-ownership. A groundbreaking move in the business world. Founder Yvon Chouinard's commitment to social and environmental responsibility has been a hallmark. The company, known for donating 1% of revenue to nature conservation, using recycled materials, and advocating for the right to repair, stands out in the apparel industry.

Beyond product excellence, Patagonia sets high standards for corporate culture, offering remote work options, encouraging volunteerism, and providing employee perks like free childcare[31]. In 2022, Patagonia transitioned to steward-ownership and is committing to donate 100 million dollars a year to fight climate change through the Holdfast Collective, which is now the economic owner of Patagonia.. Chouinard, opposed to the short-term pressures of going public, rejected the conventional IPO route. Passing the business to the next generation within the family wasn't a fit either[32]. Instead, he chose to transfer ownership to two foundations, securing the company's mission and contributing dividends to combat climate change. This unconventional decision challenges the shareholder-centric model which is so dominant in the United States. The shift towards steward-ownership ensures Patagonia's societal focus beyond the lifetime of its founder. Chouinard and his family currently maintain active roles in the foundations and Chouinard's move has inspired other business owners to look into and transition their company into steward-ownership[33, 34].

The opportunity

The case studies of Booking.com, Time to Momo, and other companies like Shell, Unilever, Danone, Carlsberg and Patagonia, showcase the critical role that ownership plays in determining a company's ability to prioritize long term thinking.

The traditional shareholder-centric approach often prioritizes short-term profit maximization at the expense of broader societal and environmental responsibilities. This profit-driven mindset, rooted in the principles of shareholder primacy, can lead to actions that undermine the public trust and contribute to systemic issues such as income inequality and environmental degradation. Conversely, companies like Time to Momo, Carlsberg and Patagonia have embraced an alternative ownership model, steward-ownership, which prioritizes mission-driven decision-making and long-term sustainability over short-term profits. These companies demonstrate that it is possible to achieve financial success while also aligning with ethical values, environmental stewardship, and social responsibility.

Ultimately, the choice of business form is not merely a legal or financial decision but a reflection of a company's values and commitment to making a positive impact on the world. As we navigate the complexities of the modern business landscape, the stories of these companies serve as inspiring examples of how businesses can thrive while also serving the greater good. By reimagining ownership structures and placing mission and purpose at the forefront, we can create a more equitable, sustainable, and responsible business ecosystem for generations to come.

Want to know more about steward-ownership or do you need guidance in your journey towards steward-ownership? Visit our website or send an email to hoi@wearestewards.nl. We are more than happy to help you.

Sources

[1] Smit, Mathijs, ‘Oprichter Booking.com profiteert niet van miljardenwinst Booking.com’. RTL Nieuws, 29 January 2018. www.rtlnieuws.nl/economie/bedrijven/artikel/3833141/ oprichter-profiteert-niet-van-miljardenwinst-bookingcom.
[2] Olsthoorn, Peter, ‘Zo werd Booking.com Nederlands’ grootste internetsucces’. Netkwesties, n.d., www.netkwesties.nl/768/ zo-werd-booking-com-nederlands-grootste.htm.
[3] Olsthoorn, Peter, ‘Zo werd Booking.com Nederlands’ grootste internetsucces’. Netkwesties, n.d., www.netkwesties.nl/768/ zo-werd-booking-com-nederlands-grootste.htm.
[4] ‘Booking.com Research Summary’. Failte Ireland, n.d., www. failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/Channel%20research/Contributor%20summaries / Booking-com-Research-Summary.pdf.
[5] ‘US Does Not Have Capitalism Now: Stiglitz’. CNBC, 19 January 2010. www.cnbc.com/id/34921639.
[6] Sitalsing, Sheila, ‘Het eerste aandeel ooit is het fundament onder het winstbejag van de voc’. De Volkskrant, 14 September 2022. www.volkskrant.nl/kijkverder/2022/ons-kolonialeverleden/de-eerste-multinationals~v546022.
[7] ‘Shaping the energy future through innovation’. Shell Powering Progress forum, n.d., https://randstadnieuws.nl/1-economie/467-shell-powering-progress-forum/3247-shell-energy-future-innovation. Accessed on 12 May 2023.
[8] ‘Shell ziet recordwinst als aanmoediging om zo lang mogelijk fossiel te blijven’. Nieuwsuur, 5 February 2023. https://nos.nl/nieuwsuur/artikel/2462693-shell-ziet-recordwinst-als-aanmoediging-om-zo-lang-mogelijk-fossiel-te-blijven.
[9] ‘Akkoord van Parijs’. Wikipedia, n.d., https://nl.wikipedia.org/wiki/Akkoord_van_Parijs#Ondertekenaars. Accessed on 1 June 2023
[10] Kruif, Irene de, ‘Topman Shell: ik pomp alles op wat ik kan oppompen’. NOS, 4 Febryary 2016. https://nos.nl/nieuwsuur/artikel/2084934-topman-shell-ik-pomp-alles-op-wat-ik-kan-oppompen.
[11] Dijk, Bert van, ‘Ik wil niet deze pandemie overleven met een bedrijf dat nergens meer toe in staat is’. Het Financieele Dagblad, 4 July 2020. https://fd.nl/ondernemen/1349829/ik-wil-niet-deze-pandemie-overleven-met-een-bedrijf-dat-nergens-meer-toe-in-staat-is.
[12] Bijloo, Esther, ‘Shell zit stevig in de houdgreep van de aandeelhouders’. Trouw, 2 March 2017. www.trouw.nl/nieuws/shell-zit-stevig-in-de-houdgreep-van-de-aandeelhouders~b6996457.
[13] ‘80% of equity market cap held by institutions’. Pionline, 25 April 2017. www.pionline.com/article/20170425/ INTERACTIVE/170429926/80-of-equity-market-cap-held-byinstitutions. Accessed on 1 February 2023.
[14] Steuernagel, Armin, ‘Transforming ownership to create a better economy – TEDxZurich’. TED.com, 9 February 2018. www.ted.com/talks/armin_steuernagel_transforming_ownership_to_create_a_better_economy
[15] ‘ABP stopt met beleggen in producenten van fossiele energie’.abp.nl, n.d., www.abp.nl/over-abp/duurzaam-en-verantwoord-beleggen/ABP-stopt-met-beleggen-in-producenten-van-fossiele-energie. Accessed on 1 December 2022.
[16] Askew, Kate, ‘“We’re ready to build momentum”: CGF says 2022 “didn’t slow action” on global challenges’. FoodNavigator, 12 January 2023. www.foodnavigator.com/Article/2023/01/12/we-re-ready-to-build-momentum-cgf-says-2022-didn-t-slow-action-on-global-challenges
[17] ‘Collaborating For Action – 2022 Review’. The Consumer Goods Forum/KPMG, 2023. www.theconsumergoodsforum.com/wp-content/uploads/2023/01/2022-CGF-Annual-Report.pdf.
[18] ‘Unilever CEO Paul Polman is redefining sustainable business’. European CEO, 15 April 2016. www.europeanceo.com/business-and-management/unilever-ceo-paul-polman-is-redefining-sustainable-business.
[19] Polman, Paul & Andrew Winston, ‘Net Positive: How Courageous Companies Thrive by Giving More Than They Take’. Harvard Business Review Press, 5 October 2021. www.linkedin.com/pulse/exclusive-excerpts-why-mayo-beat-ketchup-paul-polman.
[20] Polman, Paul & Andrew Winston, ‘Net Positive: How Courageous Companies Thrive by Giving More Than They Take’. Harvard Business Review Press, 5 October 2021. www. linkedin.com/pulse/exclusive-excerpts-why-mayo-beat-ketchup-paul-polman.
[21] Smit, Jeroen, Het Grote Gevecht. Amsterdam: Prometheus, 2019
[22] Fletcher, Laurence & Leila Abboud, ‘The little-known activist fund that helped topple Danone’s CEO’. The Financial Times, 23 March 2021. www.ft.com/content/dd369552-8491-40a2-b83b-9a1b2e32407a.
[23] ‘Dodge v. Ford Motor Co.’ H2O Harvard Law Edu, 10 September 2013. https://h2o.law.harvard.edu/cases/3965.
[24] Roe, Mark, ‘Dodge v. Ford: What Happened and Why?’. Harvard Law School Forum on Corporate Governance, 1 December 2021. https://corpgov.law.harvard.edu/2021/12/01/dodge-v-ford-what-happened-and-why.

[25] Friedman, Milton, 'A Friedman doctrine – The Social Responsibility Of Business Is to Increase Its Profits'. The New York Times, 13 September 1970. www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html.
[26] Oudenampsen, Merijn, 'Een stille revolutie? Neoliberalisme in de polder'. Positie en strategie vakbeweging. Red. Saskia Boumans & Wim Eshuis. Amsterdam: De Burcht, 2018.
[27] Hoeveel flexwerkers zijn er?'. CBS, 2021. www.cbs.nl/nl-nl/faq/ flexwerk/hoeveel-flexwerkers-zijn-er. Accessed on 18 June 2023.
[28] Kieskamp, Wilma, 'De Jonge: minder markt, meer centrale regie nodig in de zorg'. Trouw, 21 February 2021. www.trouw. nl/zorg/de-jonge-minder-markt-meer-centrale-regie-nodig-inde-zorg~b75a36ed
[29] 'Shareholders'. Carlsberg Group, n.d., www.carlsberggroup. com/investor-relations/shareholders. Accessed on 1 February 2022.
[30] Compared using Yahoo Finance on 5 July 2023. https://finance. yahoo.com.
[31] 'Why Patagonia is a most loved workplace®'. Most Loved Workplace, n.d., https://mostlovedworkplace.com/companies/patagonia.
[32] Bhattacharji, Alex, 'Peak Patagonia: The Story Behind the Mic Drop Heard Round the World'. Inc.com, December 2022. www.inc.com/magazine/202212/alex-bhattacharji/patagonia-story-behind-mic-drop-heard-round-world.
[33] Wigglesworth, Robin, 'Bloomberg is contemplating life without its founder'. Financial Times, 20 April 2023. www.ft.com/content/b998300e-d5d9-4104-a0de-dbdf0686eb14.
[34] Green, David, 'My decision to give away ownership of Hobby Lobby: I chose God'. Fox News, 21 October 2022. www.fox-news.com/opinion/decision-to-give-away-ownership-hobby-lobby-chose-god.