Guest editorial: Introduction to special issue of overcoming the barriers for employee ownership - part 2

Why is employee ownership more widespread in some countries than in others? How have they overcome barriers of organization, start-up, entry/exit of employee-owners, capital and risk?

This is the second part of the special issue of overcoming barriers to employee ownership. In the first part, we presented the experiences of worker cooperatives in France, Italy and Spain, including a specific article on the Mondragon experience. We showed how these countries have overcome the five main barriers:

(1) The organization problem, where clear models are missing for organizing employee ownership;

(2) The entry/exit problem of employee-owners to ensure that the retiring employees give up and the entering employees obtain ownership;

(3) The start-up problem, where it is hard to organize a group of employee to be owners in the start-up stage;

(4) The capital problem, where there are difficulties to raise enough capital for start-ups and the further development of companies with significant employee ownership;

(5) The risk problem where employees can be at risk of both losing both their jobs and their owner capital.

A project initiated by the Danish Government aimed to understand how the barriers had been overcome in other countries with widespread employee ownership. Leading researchers of employee ownership collected the data and wrote the reports of their countries in the winter of 2021–2022. For the two parts of the special issue, the analyses of the respective countries have been further developed and updated.

Besides the countries described in Part 1, the project also included experience in the UK and the USA. In the UK, employee ownership has since 2014 been strongly promoted through the Employee Ownership Trust model, and in the USA, the ESOP model has developed fast over the last 50 years. This second part of the special issue also includes an overview article that compares the institutional framework and the development of employee ownership in the five countries. In all these countries, with a relatively high prevalence of employee ownership, legislation has played an important role. This has been the case both for worker cooperatives in France, Italy and Spain and for the EOTs in the UK and ESOPs in the USA. Therefore, the last article in this special issue focuses on the policy implications. The article compares three basic models with pros and cons related to the specific political choices to be made when promoting employee ownership.

Below is a short presentation of the articles in this second part of the special issue:

The article "Employee Ownership in the UK" by Andrew Pendleton, Andrew Robinson and Graeme Nuttall explains the development of employee ownership in the UK since the 1980s. The development of legislation has, over time, increased and refined the incentives to adopt employee ownership. Based on the 2012 Nuttall report, the 2014 legislation on

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Employee Ownership Trusts has been the most decisive push, accelerating the growth of employee ownership in the following years. The authors have collected empirical data on this development and conducted surveys and an annual census of employee-owned firms in the UK. The paper documents the steep increase in employee-owned firms since 2014, after several decades of uneven growth. The growth is explained by the new incentives and the refinements of the regulatory framework in the 2014 law, defining and promoting the Employee Ownership Trust model, which is now the dominating model of employee ownership in the UK. According to the authors, in July 2022, there were 1,070 employee-owned companies in the UK (not including the relatively small group of worker cooperatives with around 6,000 employees). It is mainly middle-sized and large companies with more than 200,000 employees in total.

The legislation gives a clear description of the EOT model, solving the organization problem. However, the indirect ownership and trust structure do not secure democratic control by the employees, though the authors show that employees are directly represented in the majority of EOTs. Most of the EOTs have been established as takeovers of successful companies from retiring owners, who have benefited from tax advantages related to capital gains and inheritance taxation. The EOT is an all-employee plan, solving the entry/exit problem of employee members. Financing the takeover is most often done through vendor loans. The EOT can pay a yearly tax-free bonus of a maximum of £3,600 to each employee, but the employee trust owns the capital collectively. There are no possible capital gains for employee members.

The founder of the National Center for Employee Ownership (NCEO), Corey Rosen, has written the article "Employee ownership in the USA: lessons to consider in creating more inclusive capitalism." According to Rosen, the main features of the USA ESOP to overcome the barriers have been the broad-based all-employee model of the ESOP with the shares held in the trust. He finds that direct governance rights by the employees are not important compared to job stability and financial security. In Rosen's view, a too ambitious demand of democratic control by the employees may hinder widespread employee ownership because of resistance from former owners. At the same time, he finds that tax incentives are critical to induce former owners to transfer ownership to the ESOP. There are 6,700 ESOPs in the USA, with 14mn employee members. More than 600 are large public-listed companies with around 12mn employee owners. These large ESOPs own less than 10% of the stocks, often less. Most ESOPs in non-listed companies own the company 100% and have 20–500 employees.

The article "Employee Ownership in the US – Some Issues on ESOPs – Overcoming the Barriers to Further Development" *(to be published in JPEO Vol. 7 no. 1)* by Joseph Blasi, Adria Scharf and Douglas Kruse describes the USA system as Corey Rosen has done but goes in a slightly different direction with a different emphasis. Rather than taking a conceptual approach to considering the major barriers that have been identified across the different systems, the authors draw on years of interviews with actors within the USA system to look in more detail into barriers that the actors themselves perceive are holding back the more rapid development within the USA. The preliminary conclusions are that the limitations of investment banking models, poor supportive infrastructure, complexity, cost and regulatory issues, the sale of companies due to financial considerations and legal complexities and resistance by federal agencies are major barriers in the USA. Some positive prospects are identified in that Wall Street has been amenable to employee ownership with the proper government and private sector support. The authors discuss the empirical research that would be necessary, namely, interviews with retiring business owners and CEOs of large listed corporations on stock markets, to further understand resistance to employee ownership in the USA.

The article "Overcoming barriers of employee ownership in France, Italy, Spain, the UK and the US" by Niels Mygind gives a summary of all the country-focused articles in both parts of this special issue. The article compares the prevalence of employee ownership in the five countries and the ways they have overcome the barriers. France, Italy and Spain all have a high prevalence of worker cooperatives. Most are found in Italy with around 500,000 employees. France has only 46,000 employees, and Spain is in between with around 300,000 employees in worker cooperatives. Compared with traditionally owned companies, they have around the same average number of employees per company with Mondragon being larger and the rest of Spain smaller. The EOTs in the UK and the ESOPs in the USA are bigger on average, with many middle-sized and large companies, though the large public-listed companies with ESOPs have typically only a small proportion owned by the employees. In general, employee-owned companies, worker cooperatives and EOTs of ESOPs are relatively strong in knowledge intensive industries.

The worker cooperatives in France, Italy and Spain follow nearly the same model based on the principles of the International Cooperative Alliance including democratic governance, open membership and high emphasis on collective indivisible capital accumulated over time. The individual accounts typically play a minor role, except for the Mondragon worker cooperatives. In Mondragon, the initial contributions from employees are quite high, and they often grow considerably over time by adding both dividends and interest. However, there are no possible capital gains to employee members. An important feature of the worker cooperative-based systems is that support organizations connected to the worker cooperatives play an important role in all three countries. On top of this, the Mondragon Group has a strong second layer of supportive cooperatives in the group structure. This structure has played an important role for the growth of the cooperatives and as a buffer when the Mondragon Group has faced economic headwinds. The double risk of losing job and capital are limited in most worker cooperatives because of the limited individual capital and the emphasis on job security. In the Mondragon case, the double risk is further limited by the group structure securing jobs and by a separate cooperative taking care of social security and developing an independent pension system.

The British EOT has collective ownership in common with the worker cooperatives, but trust ownership does not guarantee democratic employee control. One vote per employee is a possibility, but, in many cases, the former owner and independent trustees have control. This is also the case with the American ESOP. The buildup of employee capital in both the EOT and the ESOP is based on contributions from the company, not from the employees. An important feature of the ESOP model is that it is possible for the employees to make considerable capital gains if the market value of the company increases. This issue is important to underscore in comparing the different national systems. The USA ESOP adjusts the market value of the individual equity ownership accounts each year with a federally mandated independent valuation of the shares and thus allows employees to benefit from the increased market value of their shares and maximize wealth accumulation. On average, this has resulted in considerable savings on their individual ESOP accounts, which can be used as an addition to their pensions. In this way, it has been a counterweight to the very unequal distribution of wealth in the USA.

The special issue is concluded by the article "Three models of employee ownership: Worker cooperative, EOT and ESOP – overcoming barriers – choices – pros and cons" by Niels Mygind. It focuses on the different political choices when promoting employee ownership. An important conclusion of the analyses presented in both parts of this special issue is that legislation is important to overcome the barriers for employee ownership. At the same time, the different models, whether they are the worker cooperative, the EOT or the ESOP, have all pros and cons. The final choice of model depends on the weights of different goals. The article by Mygind compares how the three models overcome the different barriers for employee ownership – to what extent they fulfill the goals of democracy, give the employee a share of the returns and capital gains connected to ownership, include the broad group of employees, facilitate start-ups or takeovers, help overcome the financing problem and limit the risk for the employee owners.

The purpose of the article is to identify the necessary choices and qualify these choices by pros and cons. Here are some examples of policy choices confronting different systems: What should be the limits and expectations for employee members returns on their capital contributions? There are important differences between the Mondragon model and the other worker cooperative models. And the USA model is an outlier, with strictly market-connected valuations allowing for the growth of these returns. What should be the limits for ownership rights of external capital suppliers? How strict should the limits be for the number of non-member employees? Shall there be special financing channels for employee-owned companies promoted by different governments, associations of companies, or even perhaps by dedicated "employee ownership banks" as in the case of Mondragon? Should there be tax benefits for former owners when transferring ownership to the employees? Should there be special rules relating employee savings in their companies for pension benefits?

There may be important trade-offs between the different choices. High ambitions for democratic governance may result in fewer employee takeovers because many former owners do not want to give up all control. The goal of establishing a considerable number of employee-owned firms as successions may make it necessary to compromise in relation to the perfect employee democracy. Indirect trust ownership with the former owner continuing to have some control may be the first step, and further democratic governance could then develop over time as indicated by the experience in UK and the USA. Another trade-off is between goals to limit profits on capital and capital gains versus giving the employees the possibility of accumulating capital through dividends and an increase in the value of their shares. In this way, the employees can get the benefits that, in a capitalist society, are disproportionately given to the richest part of the population. This could have a strong effect on wealth equality.

There is no objective definition of the optimal choice of model for employee ownership. It depends on the political goals and individual preferences of the stakeholders involved.

The political support for different types of employee ownership depends on the different weights on the goals employee ownership can fulfill. The political left typically emphasizes democratic principles of one vote per member and aims to limit control rights, profits and capital gains to suppliers of capital. This fits well with the worker-cooperative model. However, in Italy, there are also center-right parties behind one of the cooperative support organizations. In the UK, there was backing from a broad spectrum of parties behind the EOT legislation. In the USA, there has been bipartisan support from both Republicans and Democrats behind most of the ESOP legislation which is mentioned as "shared capitalism" (Kruse *et al.*, 2010).

There is no need for a political choice of one of the models because all three models could be promoted side by side. Furthermore, support for all three models can be expected to give stable political backing for the long-run development of broadened ownership and more democracy at the company level. This could be a grand political compromise between the left wing going for grass-root-level democratic ownership and center-right opinion going for some form of worker capitalism. It is also important to recognize that, as other nations look to develop employee ownership, these various developed models serve as laboratories for change. We might also observe the different models emerging in the future in the same country. An example of this is the emergence of the EOT model in the USA, which is at a very early stage.

By promoting all three models, the final choice is left to the involved persons – the employees, the former owners and other stakeholders including support organizations, banks, unions, representatives for the local area, etc. The employees must decide whether their main goal is full democratic control over the company or maybe it is more important to have the possibility for capital gains as an addition to their pension savings? The retiring owner must decide about the succession of the company – should the employees or the family take over? Tax incentives may influence this choice.

State involvement in the form of legislative initiatives is crucial for overcoming the barriers for employee ownership. However, it is possible that politicians should not go for one preferable model. They could make a compromise that promotes all three models by making legislation defining the different models, by opening for tax incentives for existing owners to transfer their companies to the employee and by developing information, training and financing possibilities. It should be possible to choose between all three models and make some combinations if relevant. In this way, you can adjust to different preferences of the employee and different ideas of current owners who find that transferring their enterprise to the employees is an interesting option. One issue for politicians is whether there would be equal treatment among all the different employee ownership models with state tax incentives and state access to financing.

People are different. Concerning the choice of ownership, it is crucial that there is a good fit between the ownership structure, whether individual or collective and the goals of the employee-owners – whether individual or collective (Mygind, 1992). It is also important to be able to adjust the ownership model to the specific type of company in relation to size, technology, knowledge base, capital intensity, etc.

For all these choices, we are proposing the consideration of the idea that there is not one ideal model – a spectrum of possible models with the possibility of some adjustments can secure the best solutions.

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