Guest editorial: Introduction to special issue on overcoming the barriers for employee ownership part 1

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?

The literature on employee ownership documents many advantages of employee ownership. This is related to the strong identification of the employees with the company, which promotes motivation and cooperation, limits conflicts and leads to higher productivity and competitiveness. However, employee-owned firms make up only a small proportion of all firms in most countries. Why are employee-owned firms not more widespread if they have productivity advantages?

At least five main barriers are identified in the literature (Dow, 2003; Mygind and Poulsen, 2021):

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 both 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.

In some countries, employee ownership is relatively more common and there is variation in the prevalence of different types in terms of size, capital intensity and industry. There are differences in how the barriers have been removed in different countries. How have the barriers been reduced in countries where employee ownership is most frequent?

A project initiated by the Danish Government in 2021 aimed to identify the main barriers for employee ownership in Denmark. An important part of the project was to understand how the barriers had been overcome in other countries with the most widespread employee ownership. Five countries were identified. In France, Italy and Spain, employee ownership has mainly been spread through different types of worker cooperatives. In the UK, employee ownership has in recent years especially been promoted through the Employee Ownership Trust model, and in the US, the ESOP model has developed over the last 50 years.

Leading researchers of employee ownership collected the data and wrote the reports of their countries in the winter of 2021–2022. For this special issue, the analyses of the respective countries have been further developed and updated.

Journal of Participation and Employee Ownership
Vol. 6 No. 2, 2023
pp. 97-100
© Emerald Publishing Limited
2514-7641
DOI 10.1108/JPEO-09-2023-032

The country analyses include recent data on the prevalence of employee-owned firms with focus on the types that have been most widespread in each country. This analysis shows the link between specific legislation and institutional settings and the development of certain types of employee ownership in certain periods. In most countries, support organizations like cooperative associations have also played a key role.

The articles in this special issue describe how the barriers have been overcome starting with the *organization problem*, which has been solved by specific legislation defining the different models of employee ownership. These models are based on the rules on the distribution of ownership rights, the governance structure in relation to the right to control for the worker members, rules for the distribution of the company surplus, possible limits for the returns on members' capital contributions and rules for payment of initial membership stakes and withdrawal of these stakes when the members leave the company. A central difference between the different systems is whether the value of the employee ownership appreciates through market-related capital gains or simply accrues as a cash balance possibly with dividends or interest income.

Closely connected is the *entry/exit problem* of employee owners. The legislation may include rules to secure that the ownership does not stagnate with the original group of workers because new workers do not become members and existing members keep their ownership stakes when leaving the company. The legislation may describe who can be members, define a certain probation period before membership is offered and regulate the proportion of non-members in relation to the total workforce.

To overcome the *start-up problem* for a new employee-owned company, the entrepreneurial group already from the start must plan for admitting new members as co-owners. This is different from the traditional model of the entrepreneur starting up and hiring non-owning workers. A support organization may help smooth this process for employee-owned firms by providing incubation, technical assistance and access to capital. Employee takeover of existing companies is another path for establishing employee ownership. This may be supported by legislation on information, first right of refusal to purchase the firm, tax incentives for the selling owner, financial opportunities, and supervision from support organizations.

The *capital problem* relates to the limitations of ownership rights to capital and the unequal distribution of wealth in society and among the employees in the company. The poorest employees may only be able to provide a relatively low capital contribution, and a potential external investor may contradict majority control by the large group of employees. Therefore, friendly loans in the start of the life cycle of the employee-owned firms and models for building up the company capital over time are important. In some cases, employees can make their capital contribution through a weekly modest deduction from their salaries. The US ESOP typically does not require any contribution of capital from the worker's savings or wages or benefit plans.

The *risk problem* arises when the employee owners build up considerable individual capital in the company. They have the risk of losing both this capital and their jobs if the company fails. How can this double risk be limited? Various options are discussed. One option is to not require employee contribution of capital at all. Another option is to have large associations of employee-owned firms who offer monitoring, financial advice and assistance, and even different levels of insurance, if not rescue, if an employee-owned firm faces job layoffs or market difficulty.

The analyses will be presented in this and the coming special issue of *JPEO*. The first part in this issue includes the presentation of worker cooperatives in France, Italy and Spain and a separate article on the cooperatives of the Mondragon Group with roots in the Basque Country. The second part in the next October issue of *JPEO* will cover EOTs in the UK and ESOPs in the USA and include an overview and an article on policy implications.

The article “Employee-owned firms in France” by Fathi Fakhfakh, Nathalie Magne, Thibault Mirabel and Virginie Pérotin summarizes the main research results for the recent years. Much of this research is done by the authors who over the years have benefitted from the availability of high-quality data on both cooperatives and conventional firms in France. According to the researchers, the different legislative initiatives and the development of the support organization CG Scop have created a strong and comprehensive framework for developing worker cooperatives. The legislation on worker cooperatives defines the model in relation to the distribution of ownership rights and eases the entry/exit of worker owners. The start-up rate is the same as for other firms, but the base is rather small. The tax rules give extra incentives to accumulate collective capital, and there are specific financial institutions for worker cooperatives. Compared to conventional firms, the French worker cooperatives are doing relatively well in relation to size, investment level, capital intensity and productivity. They survive better and have narrower pay differentials. Still, they make up only around 0.5% of employment and the number of these firms is not growing faster than among other firms. According to the authors, the explanation is an information problem both for the public and government agencies.

The article “Worker cooperatives in Italy: legislation, prevalence and recent trends” by Andrea Cori, Marco Lomuscio and Ermanno Tortia is based on new data for the country that has the highest density of worker cooperatives worldwide. There is a long tradition for worker cooperatives in Italy with a strong connection to different political parties. The three support organizations are respectively connected to the left, the center and the right. The article documents the spread of cooperatives both by industry and geographical area. Most data are based on the year 2000 with the strong influence of Covid-19 in this period. The results show that the Italian worker cooperatives give high priority to job stability. Since the Second World War, the promotion of worker cooperatives has been written into the Italian constitution. There is detailed legislation for the distribution of ownership rights specifying that worker cooperatives fulfill principles of one vote per worker member, open membership and limited return to capital. In general, worker cooperatives do not have strong tax benefits in Italy. A slightly lower company tax is balanced by a specific contribution to a cooperative fund. However, both direct regulation and tax incentives support a high accumulation of collective reserves. This is important for providing a solution to the capital problem, which is also eased by the existence of specific financing channels for worker cooperatives.

The article on *employee ownership in Spain by Carmen Marcuello* covers both worker cooperatives and *Sociedades Laborales*, which is a slightly different employee ownership type and is especially connected to defensive worker takeovers. The number of *Sociedades Laborales* has fallen in the latest 10 years while the number of worker cooperatives and their employment have been rather stable. As in Italy, the national constitution includes the promotion of cooperative enterprises and there is comprehensive legislation concerning the distribution of ownership rights, entry/exit of worker owners and the accumulation of collective reserves. As in Italy, a slightly lower company tax rate is balanced by a specific contribution reserved for education and promotion of cooperatives. There are some tax benefits and specific rules for the use of unemployment benefits related to defensive worker takeovers.

The article on “Country study on drivers and barriers for employee ownership: the case of MONDRAGON group” by Saioa Arando and Beñat Herce gives an updated overview of the development of the MONDRAGON Group, which since its start in the 1950s has grown to become the largest cluster of worker cooperatives in the world. In recent years, the MONDRAGON Group has met several challenges. The biggest cooperative closed as a result of the financial crisis, and lately some of the worker cooperatives have stepped out of the group structure. The legislative framework follows the Spanish model to a great extent, but the Basque Country is allowed to have some specific differences, and the MONDRAGON

Group has its own internal rules within this framework. This includes pooling of profits among groups of cooperatives and a strong second level of support cooperatives including banking, social security and education. The initial individual capital contributions from the worker members are relatively high. Adding interest and dividends, these individual capital accounts may grow to a considerable value by the time the individual worker member exits the cooperative.

The second part of this special issue of *JPEO* will complete the picture of models which can overcome the barriers for employee ownership with articles on EOTs in the UK and ESOPs in the USA. The October issue will also include an overview of how the barriers have been overcome and an article focusing on policy implication comparing three basic models with pros and cons of the specific choices to be made when promoting employee ownership.

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