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Overcoming barriers of employee ownership in France, Italy, Spain, the UK, and the US

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Abstract

Purpose – The purpose of this paper is to give an updated overview over the development of employee-ownership in Italy, France, Spain including Mondragon, the UK, and the US with relatively many employee-owned firms. How has the barriers for employee-ownership been overcome in these countries?

Design/methodology/approach – The overview is based on updated descriptions of the development of employee-ownership included in this special issue. The analysis follows the structure of overcoming five barriers: the organization problem; the startup and takeover problem; the problem of entry and exit of employee-owners; the capital- and the risk problem.

Findings – Italy, France and Spain have overcome the barriers by specific legislation for worker cooperatives, this includes rules for entry and exit of employee members. Cooperative support organizations play an important role for monitoring and managing the startup problem and for access to capital. The Mondragon model includes individual ownership elements and a group structure of cooperatives. The EOT and ESOP models are well suited for employee takeovers, financing are eased by tax advantages, and they are all-employee schemes. While the EOT has no individual risks the ESOP model has the possibility for capital gains for employees but also the risk of losing these gains.

Originality/value – Comprehensive and updated overview of the development in employee-ownership in the five countries to identify successful formats of employee-ownership for implementation in countries with few employee-owned firms.

Keywords – Employee-ownership, Institutional context for employee-ownership, Italy, France, Mondragon, Spain, UK, US, EOT, ESOP.

Paper type – Research paper.

1. Introduction and overview

As it is documented in detail in this special issue employee-ownership is quite widespread in France, Italy, Spain, the UK, and the US. Therefore, the purpose of this overview is to identify how the barriers for employee-ownership have been overcome in these five countries.

The analysis is based on country reports done by teams of leading researchers on employee-ownership in each country. The researchers have based their work on a checklist of key-points to investigate but with flexibility for them to go deeper into the areas, which they found of highest importance in the given country.

The checklist covers first *prevalence* – the number of employee-owned firms with focus on the most widespread types in the given country. Is the distribution different from other firms in relation to industry structure, size, capital intensity, knowledge intensity etc.? Is there a link between the introduction of specific legislation and the development of certain types of employee-ownership in certain periods? In some countries, support organizations like cooperative associations have played a key role.

In this section, we first define different types of employee-ownership related to three ownership rights. Then we present five main barriers for start and development of employee-ownership (Mygind and Poulsen, 2021). This is followed by a short presentation of how the barriers have been overcome. We focus on the most successful employee-ownership models in each country. In the conclusion, the different models and experience are compared.

Different types of employee-ownership can be defined in relation to the three ownership rights to control, profits, and capital gains. In the typical limited liability company, shareholders have a proportional share of all three ownership rights. In *fully employee-owned* firms, the majority of the employees own the majority of the company fairly equally. That is both *deep* and *broad* employee-ownership. There are two main types: *individual* employee-ownership, where each employee can sell his/her shares upon withdrawal and realize a capital gain, and *collective* ownership, where the increase in equity remains in the company as indivisible reserves. The latter is the typical *worker cooperative*. In both models, the employees can exercise democratic control at the general meeting and when electing the board of directors. These control rights are evenly distributed among the employees – in the worker cooperative by one vote per employee - illustrated by "+" in figure 1.1.

Figure 1.1 Types of employee-ownership related to the three owner rights

Type Right to	Control	Profits	Capital
Worker cooperatives (collective ownership)	+	+	Limited
Worker cooperatives with individual accounts	+	+	+
ESOP with majority ownership	(+)	+	+
EOT	(+)	(+)	Limited

Note: + employees have the rights. (+) employees have rights often through the trustees.

The British Employee-ownership Trust (EOT) and the American Employee Stock Ownership Plan (ESOP) are the most widespread forms of majority employee-ownership in the UK and the US. In both cases, the company is *indirectly* owned by an employee trust.

2. Barriers for employee-ownership

2.1 Prevalence and barriers

There is a comprehensive literature about employee-ownership both theoretical and empirical, which document many advantages of employee-ownership. This is related to the strong identification of the employee with the company, which promotes motivation, limits conflicts etc. and leads to higher productivity and competitiveness (Mygind and Poulsen, 2021). However, employee-owned firms make up only a small proportion of production in most countries. Therefore, a key research area has been to identify the barriers for the start and development of these enterprises.

Why are employee-owned firms not more widespread if they have productivity advantages? What are the barriers in terms of startup/change of ownership, entry and exit of employee-owners, capital inflows and risk concentration? There is a wide variation in the prevalence of different types of employee-ownership in terms of size, capital intensity and industry, and there are strong variations how the barriers have been overcome in different countries.

At least five main barriers can be identified (Dow 2003, 2018; Mygind and Poulsen 2021):

1. *Organization problem* – a model is missing for organizing the employee-ownership.
2. E*ntry/exit problem* of employee-owners – ensure that retiring employees give up and new-coming employees obtain ownership.
3. *Startup problem* – difficult to organize a group of employees in the startup stage.
4. *Capital problem* – difficult to raise enough capital for upstart and further development.
5. *Risk problem* – employees are at risk of both losing their jobs and their owner-capital.

2.2 The organization problem – a model for employee-ownership

A common feature of countries with a high prevalence of employee-ownership is specific legislation defining the framework for this type of business. In France, Italy and Spain with many worker cooperatives, there are rules on the right to control, one vote per member, rules for open membership, a cap on the number of non-members, and special restrictions on members' capital injections and their remuneration. These rules follow in general the principles of the International Cooperative Alliance, ICA. In the UK and the US there are indirect employee-ownership through a trust exercising the right to control. The right to surplus and wealth are collective in the British EOT, while in the US ESOP all employees have an account with their individual share of the company. All countries have well proven models with clear rules for the right to control, surplus and wealth.

2.3 The problem of entry and exit of employee-owners

If there is no mechanism for the co-ownership of new recruits and the withdrawal of leaving employees from ownership, the employee-ownership may be gradually diluted as the employee group is replaced. This is not a big problem in collectively owned worker cooperatives because the individual employee's deposits are typically quite limited. There are rules that require membership of all permanent employees and there is a limit to the number of temporary staff. For individual employee-ownership, the problem is the valuation of the employee shares. In the capital-owned company, ownership shares may be sold together or in smaller parts on the market. In the case of employee-ownership, jobs and capital contributions are linked. The employee-owned company hires new employees, and the share value is set by special rules, often involving an independent assessor.

2.4 The startup and takeover problem

It is difficult to assemble a group of employee-owners to start a new employee-owned company. The start of a new conventionally owned company occurs by one or a few partners setting up a business and then gradually hiring employees without ownership. Are the entrepreneurs willing to share the value of the business idea with future employees, and can and will future employees pay an "entrance fee" for co-ownership as compensation to the initiators (Dow, 2003, 2018)?

There are many examples of employee-owned firms emerging as *defensive* takeovers of companies threatened with closure, with the primary purpose of preserving jobs. Acquisitions of successful companies by the employees occur often in connection with change of ownership, especially when the owner of an owner-led company wants to retire. The question is whether employees as a group can and will inject sufficient capital to finance the takeover.

2.5 The capital problem

The typical employee has relatively little free capital to invest in the company compared to the typical external investor. There may be large differences between employees in a company, which can lead to a skewed distribution of ownership. External capital often requests ownership or high interest rates on loans. The credit-risk to an employee-owned company is often considered extra high because the format is unknown and/or is assumed particularly risky because employees are expected to pursue objectives other than profit maximization (Dow, 2003, 2018). Therefore, employee-owned firms may arise mainly in industries with relatively low capital per employee and employee-owners may choose low capital-intensive technological solutions. However, there is little evidence for these predictions probably because countries with a high prevalence of employee-ownership have created special financing opportunities and tax incentives for employee-owned firms.

2.6 The risk problem

When employees invest individual capital in their company, they are exposed to the risk of losing capital, which comes on top of the risk of losing employment and company-specific human capital (Meade, 1972). This risk is modified, if employee control means lower risk of firing employees (Dow, 2003). In collectively owned cooperatives, the possible loss of capital for the individual employee is often very low. In individually employee-owned firms, each employee may lose significant amounts.

Various solutions can reduce the risk problem. In most worker cooperatives the individual stakes are limited and does not follow variations in the market value of the firm. Most equity is collectively owned. In models based on significant individual capital stakes, the employees often have other sources for pensions. The individual accounts are extra savings. It is only these savings they risk losing.

3. Employee-ownership in France – worker cooperatives (based on Fakhfakh et. al, 2023)

1. Prevalence

The cooperative sector in France dates to the 1830ss. In Europe, only Italy and Spain have more worker cooperatives. According to the umbrella organization of worker cooperatives in France, CG

Scop there were 2,450 SCOPs (*sociétés coopératives et participatives*) in 2022. They employed 46,000 people. There were 150 CAEs (*coopératives d'activité et d'emploi*) in 2021 - a type of worker cooperatives where the 12,000 members are individual entrepreneurs but legally are treated as employees in relation to taxation and unemployment benefits. In addition, there were 1,300 community interest cooperatives, *sociétés coopératives d'intérêt collectif* (SCICs) employing 14,300 people in 2022.

The number of worker cooperatives sharply increased after SCOP legislation were entirely revised and unified in 1978 (law 78-763 of 19 July). Another reform, in 1992 (law 92-643 of 13 July) may explain some of the growth after that date. The 1992 law made it easier for SCOPs to attract external shareholders, in particular from the cooperative movement. From 2014, the Social and Solidarity Economy law promoted startups and cooperative takeovers of conventional firms. The number of worker buyouts of sound conventional firms has increased in recent years because of new legislation and an active campaign by the CG Scop.

Historically, SCOPs were concentrated in construction and manufacturing, but since the 1990s, the share of SCOPs in services has grown to be comparable to that of other French firms. SCOPs are more concentrated in knowledge intensive services (Professional, Scientific, and Technical services - PST) and high-tech than conventional firms, where the share of retail- and wholesale trade is much higher.

The average number of employees in SCOPs is high compared to traditional firms. There are relatively few very small SCOPs. They must have minimum 2-7 employees, which excludes micro firms. There are also few very large SCOPs. They have only half the density of firms with more than 500 employees compared with conventional firms.

SCOPs' capital intensity is not significantly different from that of conventional firms and measures of total factor productivity is relatively high for SCOPs (Fakhfakh et al. 2012). SCOPs have a stronger productive advantage in knowledge-intensive industries with high R&D spending or a high proportion of workers with university education (Young-Hyman et al. 2022). Magne (2017) shows significantly lower pay inequality in SCOPs, and Magne and Pérotin (2022) find that SCOPs protect jobs better than conventional firms. They have less flexible employment but more flexible pay and hours.

The first support organization was established in 1884. From 1937 it has the name CG Scop (General Confederation of SCOPs). It has 13 regional branches, URSCOPs, and three trade federations in construction, manufacturing, and communication. 95% of SCOPs and 50% of SCICs are members. CG Scop has a lobbying role and perform training, advice, and financial support especially for new cooperatives. It is mostly funded by its members. The regional URSCOPs play an important role for cooperative conversions from conventional firms. They inform about SCOP characteristics at a very early stage, provide financial support, write bylaws, and give advice regarding topics as diverse as profit distribution, management and governance, wages, human resources, etc. CG Scop allocates a third of its funds to the URSCOPs. Some URSCOPs have developed financial companies with venture capital to support worker-owned firms in their regions.

2. Overcoming the organization problem – the SCOP-model

The main laws are the 1947 law on cooperatives as modified by the SCOP-laws of 1978, 1992, 2012, and the 2014 law on the Social and Solidarity Economy as well as by company laws and labor laws. If there is a difference, the SCOP laws prevail over company law.

SCOPs are *governed* by their members, who own the firm partly individually and partly collectively. The main owners are the worker members, but SCOPs may also have external members often from the cooperative movement. The members elect the board and the CEO. The CEO and at least two-thirds of the directors must be employee members. Members vote on strategic issues at the annual general meeting. They have one vote each regardless of their individual capital stake. External members may hold voting rights in proportion to their investment, but their total votes cannot exceed 35% of the SCOP's total votes or 49% if the external member is a cooperative. A SCOP that invests in another SCOP can hold more than 50% for up to 10 years and have up to 50% of the votes.

At least 25% of profits are distributed to all employees, whether they are members of not. They must have worked in the company at least three months in the relevant year or have at least six months of service. This includes employees on short-term contracts, like apprentices. Many SCOPs have clauses in their bylaws requiring employees to apply for membership after a certain time. *The labor profit share* must be at least equal to the share of profits remunerating individual membership shares.

At least 15% of a SCOP's annual profit must be allocated to the collective reserves until the reserve reaches the highest level ever reached by the individually owned capital. An unspecified proportion of profit is allocated to the collective development fund. In practice, SCOPs allocate more to collective capital than required. CG Scop estimates an average of 43% of profits for 2019. The collective reserves are asset-locked and may not be split among the members. If the firm closes, net assets devolve to a cooperative, public sector or nonprofit organization. Bylaws may allow losses to be covered from reserves serving as a form of insurance. Otherwise, losses are covered by the individual share capital.

Remuneration of the individually owned capital is optional, and it should not exceed the *labor share of profits,* or the total amount allocated to collective reserves. Individual capital is made up of shares that new members purchase as they join and extra shares acquired later. New worker members must buy one share. In large SCOPs, worker members can pay for their first share by instalments. The payment should not represent more than 10% of wages. Bylaws may require members to purchase new shares every year. Large SCOPs may issue non-voting preference shares reserved for external members as well as bonds, in particular cooperative bonds (*titres participatifs*) on which the interest rate is regulated. No single member may hold more than 50% of the

capital, but bylaws may set a lower maximum. An exception is the right of a parent SCOP to hold more than 50% of a subsidiary for up to ten years. 44% of SCOPs do not have any external shareholders. The average proportion of outside shareholders is 16% and the median 8%.

When members leave, shares are sold back at their nominal value, with a regulated adjustment for inflation and interest. The cooperative has five years to pay back the value to departing members.

Every year or every five years depending on their size, all cooperatives must undergo an audit (*révision coopérative*) carried out by CG Scop. If the cooperative laws are not respected the coop get a formal notice and can lose its SCOP status. The audit may cover a broader set of issues and constitute a way to support the SCOP's development.

The SCOP status allows all worker-members, including the manager, to be employees with the associated rights of social protection, unemployment benefits etc. This is also the case for CAE members.

3. The problem of entry and exit of employees

French SCOPs are open to new members. They must buy one share and be approved by the general meeting after being in a permanent job for one year. The bylaws of some SCOPs mandate new workers to apply after one year. For CAEs: all workers must apply within three years. They must buy one share at entry. This fee can vary from 20 euros to the equivalent of 6 months' salary. In most cooperatives, the initial payment is a few hundred euros and is completed with a monthly instalment of around 5% of the wage or a share of the profit-sharing bonus.

In 2017, the average membership among SCOP workforces was 74% and the ratio among workers with two-year seniority was 82%. In 52% of SCOPs, all workers with two-year seniority are members. In 10% of SCOPs the membership ratio for two-year seniority workers is lower than one-third.

Dismissed worker members lose their membership. Retiring members, or members made redundant may retain their membership and they can still vote in general meetings. However, the SCOP may remove their membership. Worker members that resign membership normally lose their job.

4. The problem of startups and takeovers

The 2014 law on Social and Solidarity Economy facilitated cooperative takeovers of conventional firms. Companies with less than 250 employees must at least every three years inform the employees of the conditions, costs and benefits that would be involved in an employee buyout, as well as available government support. The seller is obligated to notify the employees of an intention to sell to allow them to make an offer.

"Seed SCOPs" (*SCOP d'amorçage*) were created by the 2014 law. When a conventional firm is turned into a SCOP, the owners of the original company may hold more than 50% of the SCOP capital (though not of voting rights) for seven years. The former owner often becomes an external member in the new SCOP. After seven years, members must buy or refund the shares of the associates that are not members of the cooperative.

The worker members benefit from a 25% taxable income deduction of their expenses for buying shares up to a certain amount per year. After a takeover the employees may also deduct the interests of loans contracted to redeem the shares of the SCOP.

The 2014 law also facilitates groups of SCOPs by allowing one of them or their employee members to hold the majority of the capital and voting rights of another worker cooperative in the group.

CG Scop's regional federations play an important role in supporting the workers in the startup or buyouts processes. An innovative SCOP *incubator* was created in Montpellier in 2007 and later duplicated in two other regions. 103 firms were created 2009-2021. 41 of them as SCOPs or SCICs. At the local level, some cooperatives play a role in promoting new cooperatives.

SCOPs have about the same annual creation rates as conventional firms. In 2018, the population of SCOPs was composed of 58% SCOPs created from scratch, 27% worker takeovers of sound firms, 8% rescue buyouts and 8% conversions of non-profit organizations into SCOPs. As in other countries, SCOP *creations* have been more countercyclical than for conventional firms, but the business cycle affects *closures* of both types of firms in the same way (Pérotin 2006).

SCOPs survive better than their conventional counterparts do, though this could partly be explained by a stricter selection of new projects. Survival for over a century is quite common. The oldest SCOP alive in 2018 was born in 1882; and 13 SCOPs created before the First World War (including five

SCOPs created before 1900) were still operating in 2018. Converted SCOPs have similar survival rates as converted conventional firms, while SCOPs created from scratch have higher survival rates than conventional (Mirabel 2021). The average failure rate for worker-owned firms (31%) is lower than for conventional firms (45%), (Mirabel 2022).

5. Overcoming the capital problem

Fakhfakh et al. (2012) found for all industries that SCOPs' average annual investments were either significantly higher or the same level as in conventional firms. These findings are also confirmed for recent years. This may be partly explained by the rules on the allocation of profit to collectively owned capital and the possibility SCOPs have of retaining extra profit tax-free for investment purposes under the deferred profit-sharing scheme.

The CG Scop can also be a source of financial support: The *Socoden* financial company offers participatory loans, which are 80% backed by the European Investment Fund. The *Scopinvest* fund uses cooperative bonds (*titres participatifs*) and convertible bonds to offer capital support. *Sofiscop* backs loans, cash-flow finance or leasing agreements granted to SCOPs by cooperative bank *Crédit Coopératif*. In 2020, CG Scop created a venture capital fund, *CoopVenture*, to finance and support innovative high-tech startups. The allocation of funds is decided locally by the regional committees of financial commitments (*Comités d'engagements financiers régionaux* or CEFRs (Mirabel 2022). In 2020, such specialized funds together managed 552 loans for a total value of €17 million, backed another €48 million worth of loans and purchased cooperative bonds worth €9 million.

SCOPs pay corporate tax at the same rate as conventional companies. However, they are exempt from some local taxes. France has a deferred profit-sharing scheme mandatory for firms above a certain size, but SCOPs may distribute a larger share of profit under this scheme. This profit sharing averaged in 2006, €4,500 in cooperatives and €2,300 in traditional enterprises. SCOPs and conventional firms have the same tax advantages (Fakhfakh *et al.*, 2012). In addition, SCOPs may retain the same amount of profit for investment not liable to corporate tax.

From 1915 to 2015, SCOPs, especially in construction, benefitted from a preference in tendering for government contracts if their bid matched a conventional company's bid.

About 12.3% of SCOPs benefit from investment subsidies, as against 3.7% of conventional firms. The SCOPs receiving investment subsidies are concentrated mostly in manufacturing (30% against 15% of conventional firms) and construction (24% against 23% of conventional firms). The support provided by the regional federations URSCOPs increases SCOPs' awareness of possible sources of public funding, including funding targeted at the Social and Solidarity Economy.

6. Conclusion

The framework for worker cooperatives in France seems to function quite well to overcome the different barriers. The legislation defines a clear model for worker cooperatives securing the principles of democratic control and broad ownership of the employees. It secures smooth entry and exit of employee members. CG Scop and URSCOPs mitigate the problems of starting new cooperatives and takeovers of conventional firms. Specialized funding helps to secure external finance and the tax system promotes investments in the worker cooperatives. Still, the weight of worker cooperatives in the French economy is modest compared to Spain and Italy.

4. Employee-ownership in Italy – worker cooperatives (mainly based on Cori et al. 2023)

1. Prevalence

The first worker cooperatives date back to the 1850s. A few years later, an association, now named *Legacoop*, was formed to coordinate the cooperatives. *Legacoop* has roots in the labor movement associated with communist and socialist parties. In 1919, a Catholic-conservative wing broke out and formed *Confederazione*, and a political center-oriented group, *Associazione*, was organized in 1952. There has been a close interaction between different political parties and the cooperative movement in Italy. During the fascist rule, *Legacoop* was banned. The state took over some control and the number of worker cooperatives fell. It increased again after 1945. There are now around 24,000 worker cooperatives with 500,000 employees and a total turnover of 22 billion euros. 55% of the employees are found in Northern Italy with the highest density in Emilia Romagna. After World War II, the number of cooperatives increased strongly here as well as in the regions of Tuscany, Marche, and Veneto. This area of "Third Italy" has a long tradition for cooperative development.

There are few micro-enterprises among the worker cooperatives, but otherwise the size distribution follows other firms. The worker cooperatives are strong in construction, transport and storage, and in business services such as cleaning, while they are under-represented in manufacturing.

The big proportion of the large and medium sized worker cooperatives are members of one of the three associations. Among the small cooperatives the participation is less than 50%.

2. The worker cooperative model – prevalent mutuality

Italy has a national regulation of worker cooperatives combined with various forms of support. The Constitution after World War II made the state responsible for the promotion of cooperatives. The 1947 Basewi Act with adjustments in 1992 follows the ICA cooperative principles. The Italian worker cooperatives can belong to the group of *non-prevalent mutuality*, which may have divisible reserves without tax benefits. They make up around 5% of all worker cooperatives and have 5% of the employees. Here we focus on the dominating group in Italy with *prevalent mutuality*.

The right to control: The basic principle is one vote per worker-member. Each member must have at least one share, called "*capitale sociale*" – social capital. In second order cooperatives there is an exception for *legal-members* – could be other cooperatives – which may have up to five votes.

Investor members' rights are specified in the bylaws. *Investor members' shares* can have votes, but not more than one third of the votes of other members present at the general meeting, and they cannot elect more than one third of the members of the board.

The right to surplus: the return on individual shares cannot exceed the rate on postal bonds plus 2.5%. At least 30% of the yearly surplus must be invested in collective reserves - *riserva legale*. Usually a higher proportion, often 97%, is invested. 3% must be paid to the national fund for cooperative startups. Individual shares of social capital often make up only a small part of the owner-capital.

The right to wealth: The minimum value for single worker-member shares is 25 euros and the maximum is 500 euros. No member can own total social capital for more than 100,000 euros. The share of social capital must be paid back to a leaving member before 6 months after the most recent approval of the accounts. The return on investor members' shares and the return on *Cooperative participation shares* (CPS) cannot exceed postal bonds +2.5% + 2%.

3. Rules about entry and exit of members

The compensation paid to non-member workers must be less than 50% of the total compensation for all employees. Trainees can be “special members”. They cannot exceed one third of the members.

4. Startups of and worker takeovers of conventional firms

The establishment of employee-ownership is countercyclical in Italy. 1979-2014 had close correlation between rising unemployment and employee takeovers. The 1985 Marcora Act allowed job-threatened employees to use their unemployment benefits and severance pay with tax-relief for acquisitions or start of new worker cooperatives. They have the right of first refusal if their company is for sale.

There are a few local public agencies supporting startups of cooperatives in Veneto, Emilia-Romagna, and Trento. Other regions have credit lines at subsidized rates for new cooperatives. Most new worker cooperatives have recently been set up in Central and Southern Italy, which were stronger hit by the crisis 2008-10. The associations play an active role supervizing new coops by technical, administrative, and financial support through the mutualistic fund based on the 3% “coop-tax”.

The Marcora Law from 1985 focused on worker cooperative takeovers of distressed traditional companies. With the revision of the law in 2001, it could also be used for startups of new worker cooperatives and social cooperatives. One of the funds, *Cooperazione Finanza Impresa*, CFI, have supported 536 cooperatives and more than 20,000 workers by managerial and financial assistance and by investing 282 million euros. Out of these 330 were rescue buy-outs saving 12,700 jobs.

5. Finance

The accumulation of collective indivisible reserves is an important part of the capital base of worker cooperatives in Italy. 30% of profits, often more, are accumulated in these *riserva legale* every year.

Individual shares may be important but often it is only the minimum of 25 euros per member. It has the character of loans with a maximal return of postal bonds plus 2.5%. Members can also contribute with *members' loans* that are repayable at any time and the maximum remuneration is the rate of postal bonds plus 2.5%. The total amount of members' loans is limited to three times the *social capital + riserva legale + profits*. *Cooperative participation shares* (CPS) may belong to both members and non-members, and to outsiders. They have no voting rights, but a privileged status in relation to dividends and repayments of capital being reimbursed before *social capital*. The total value of the CPS cannot exceed the collective reserves or the net worth. At least 50% of CPS must be offered to the employee members. The return on CPS cannot exceed postal bonds +2.5% + 2%.

The worker cooperatives associated to the *Legacoop* and the *Confederazione* have close links to the affiliated banks in the groups. *Legacoop* cooperatives own a banking group *Unipol* and the insurance group *Unipol-Sai*. *The Cooperative Credit Banks* are mostly affiliated with the *Confederazione*. There is mutual independence but strong connections between these banks and the worker cooperatives. There are special funds, *Fincooper* and *CFI* to support startups and employee takeovers.

Tax benefits. Worker cooperatives pay the same corporate tax of 24% on profits as other companies, but they get a deduction of 57% on the savings into *riserva legale*. This gives an extra incentive for accumulation into these collective reserves, which is an important part of the accumulation of capital. The 3% contribution to the mutualistic fond for new worker cooperatives is also deductible.

Members can be employed as *wage earners* or as *self-employed* as defined in the bylaws. As a *wage earner*, the member has the rights to social security, unemployment insurance etc. A *self-employed* member gets a different social security and insurance regulated by the laws on autonomous work.

5. Risk

Since the accumulation of individual shares – *social capital* – is often very low for the individual worker, the financial risk is limited. Combined with more secure employment the total risk may be smaller than in conventional firms. However, in the cooperatives with non-prevalent mutualistic ownership there could be higher individual shares and divisible reserves. This may on one side mean higher accumulation of individual capital stakes and at the same time higher risk of losing them.

7. Conclusion

In Italy, there is a clear model for a worker cooperative following the ICA principles of one member on vote, importance of indivisible reserves, and limited return on individual member shares. Support from three strong cooperative associations and some tax preferences have helped to overcome the obstacles to starting and developing worker cooperatives. The low membership fee, open membership, and the limitation of the group of non-owner workers overcome the problem of *entry/exit* of employee-owners, and the co-operative organizations promote the *startups* of new worker cooperatives and support employee takeovers of distressed conventional companies. The legislation and the rules of the cooperative organizations define the format for employee-ownership.

Italian worker cooperatives typically operate in industries with relatively low capital inputs per employee including construction, and business services. The *capital problem* is mitigated through different financing schemes and banks and financial institutions connected to the support organization. The *risk problem* is limited by collective ownership, and the low individual share capital.

5. Employee-ownership in Spain – worker cooperatives (mainly based on Marcuello, 2023)

1. Prevalence

The cooperative sector in Spain dates to the 1840'es. It developed fast especially in the 1930s and since around 2000. In Europe only Italy has a higher number of worker cooperatives. According to the umbrella organization, COCETA, the Spanish Confederation of Worker Cooperatives, in 2021 there were 17,600 with more than 305,000 employees – about the same as in 2010, with 17,700 worker cooperatives employing 270,000 people. The highest density in relation to the population is found in the Basque Country followed by Murcia, and Navarra. In 2020, there were established 1124 new worker cooperatives with 3000 employees. 75% of these were within services.

There were 7,800 *Sociedades Laborales* – worker owned companies – with 55,000 employees in 2020. This is about half the number of 2009. The legal format of *Sociedades Laborales* is defined in the state law 44/2015 and includes: majority of share capital owned by the employees, equal distribution of capital among the workers, democratic decision-making, equal distribution of profits, minimum 3000 euros capital for a Labor Limited Liability Company and 60,000 euros for Labor Corporations, and minimum three members. There may be external owners related to the social economy. They shall have less than 50% of the share capital and the votes. The number of hours of non-member employees may not exceed 49% of the hours by the worker members. Because the number of *Sociedades Laborales* has fallen steeply in later years, we focus on the Spanish worker cooperatives.

The support organization, COCETA, was constituted in 1986 as an association of similar organizations in the regions. The primary objective is the creation and development of worker cooperatives by lobbying, coordination, spreading information, international cooperation, and by supporting new worker cooperative as startups and takeovers.

2. Overcoming the organization problem— legal framework for worker cooperatives

Worker cooperatives are regulated by a national law 27/1999 and 15 out of the 17 autonomous communities, regions, of Spain have their own laws on cooperatives. The state law notes in the preamble that it is in accordance with the ICA principles.

The rights to control: Each member have one vote at the *General Assembly*. The Assembly elects the *Governing Council* from among its members. In cooperatives with less than five members, they all form both the Governing Council and the Assembly. All cooperatives have a control body of auditors. The cooperative law opens for *collaborating members.* They can contribute with external capital, but their share cannot exceed 45% and they cannot have more than 35% of the votes.

The rights to profit: Each worker-member gets monthly payments called *corporate advances* as compensation for participation in the cooperative activities. Annual profits or losses are distributed according to the cooperative activity, not according to the share of capital. The cooperative must allocate at least 20% of the cooperative surplus (and 50% of extra-ordinary cooperative surplus) to the *Obligatory Reserve Fund*, which is a collective reserve. At least 5% must be allocated to the *Education and Promotion Fund* to the benefit of the cooperative members and the local community. The remuneration of member capital cannot exceed the interest rate of the Central Bank plus 6%.

The rights to wealth: In case of dissolution of the cooperative, the *Education and Promotion Fund* is at the disposal of the associated federative entity. The order of compensation to the contributors of capital are: 1) external debt, 2) share capital of collaborating members, 3) voluntary share contributions of employee members, 4) obligatory contributions to the reserve funds. The indivisible reserve funds are the last buffer. What is left, is at the disposal of the cooperative society.

When members leave, the individual shares are sold back at the nominal value, with an adjustment for inflation and interest. The cooperative has five years to pay back the departing members' shares.

3. The problem of entry and exit of employees

Spanish worker cooperatives are open to new workers. The minimum size is three members (in a few regions it is two). Non-members' working hours may not exceed 30% (some regions 35%) of the hours of working members. New members must make a minimum share contribution to the cooperative as an entrance fee. There may be a probation period of up to 12 months. The hours of worker members on probation must be less than 20% of the hours of working members.

4. The problem of startups and takeovers

The *Federation of Worker Cooperatives*, COCETA, takes care of consulting, training, and technical support to promote and establish new worker cooperatives. Related to the social economy and the revival of rural areas there are examples of mixed cooperatives where both consumers and workers are members. There is a long tradition of active public policies to support worker cooperatives and the Social Economy. In 2019, a new ministry of *Labor and Social Economy* was formed. The public activities include subsidies for job-creation by worker cooperatives and by *Sociedades Laborales*; assistance for feasibility studies, auditing, and consulting; training, financial aid for investments and subsidized loans. In 2020, the total budget distributed by the different regions was 52 million euros.

Workers may use unemployment benefits or severance pay as input capital both as a self-employed worker, when joining a worker cooperative or a *Sociedades Laborales* whether existing or newly created. These contributions are exempt from personal income tax if the share of participation is maintained for more than five years.

5. Overcoming the capital problem

The main internal finance is the accumulation of collective reserves from mandatory contributions of 20% of the yearly profits and 50% of the "extra-cooperative profits". On top of this, the cooperative can build up voluntary reserves, which may be indivisible if decided by the general assembly.

When becoming member of a cooperative the individual must pay a minimum contribution to the share capital. These individual shares are paid back at exit. According to the bylaws there can be added an entrance fee of up to 25%, which goes to the indivisible reserves. The worker-members can also give loans to specific investments in the cooperative.

Collaborating members can contribute with up to 45% of the share capital. It can be persons or legal units like other cooperatives.

Tax treatment. The Laws 20/1990 and 27/1999 regulates the taxation of worker cooperatives. The cooperative surplus is taxed at 20% (normal corporate tax is 25%). Cooperatives have a special obligation to pay 5% to the *Education and promotion fund*. 50% of the mandatory allocation to collective reserves are deductible before tax. For certain worker cooperatives fulfilling some social purpose the tax rebate can be up to 90%.

Banking finance: There are several large banks with cooperative roots like the *Caja Rural Group* with the *Cooperative Bank* as the center and the *Cajamar Cooperative Group*. They are among the ten biggest banks in Spain. *Laboral Kutxa* is a dominant bank in the Basque country and part of the Mondragon group, see below. Worker cooperatives may also get financing from a long list of small ethical bank serving principles related to the social economy, sustainability, responsible investments.

The *Ministry of Labor and Social Economy* gives subsidies when worker cooperatives and *Sociedades Laborales* saves jobs through rescue takeovers and projects that develops the social economy.

The worker members pay social security contributions like other wage earners. The cooperative can choose to consider its worker-members as employees or as self-employed.

5 Conclusions

The framework for worker cooperatives in Spain has helped to make the worker cooperative sector the strongest in Europe after Italy. The legislation defines a clear model for worker cooperatives securing the principles of democratic control and broad ownership of the employees. It secures smooth entry and exit of employee members. CECOPA and regional support organization and quite active public support mitigate the problems of starting new cooperatives and takeovers of conventional firms. There are large banks supporting cooperative principles and specialized public funding helps to secure external finance. The tax system promotes accumulation of collective reserves and investments in the worker cooperatives.

6. Employee-ownership in Mondragon – worker cooperatives based on Arando & Herce 2023

1. Prevalence

In 1956 five young engineering students established the first cooperative in Mondragon, *Ulgor* (later named *Fagor Electrodomésticos*). it became Spain's largest white goods manufacturer. Other worker cooperatives were set up, and during the group's development a range of important support entities were established: a bank: *Caja Laboral Popular* (later named *Laboral Kutxa*); a social security company: *Lagun Aro*; a science centre*: Ikerlan*; a company for developing new activities: *Saiolan*; a university; and various organizations for consulting, management development, auditing, etc.

From the initial 25 employees the group grew to 20,000 in 1988; 40,200 in 1998; 68,200 in 2003, and 93,800 in 2007. Following the financial crisis employment in the Mondragon cooperatives fell to around 74,000 in 2014-16 before rising again. *Fagor Electrodomésticos* had invested heavily in the years leading up to the crisis and suffered a sharp setback. In the global white goods industry, there was a strong concentration and the cooperative tried to cope with the competition through international expansion by acquisitions of firms and competitors in France, Italy and Poland and establishing subsidiaries in China and Morocco. The operation failed. In 2006, the total number of jobs was 11,000 - about half in the Basque Country. In the following years, employment fell together with the steep fall in demand. At the final closure in 2013, there were 2,000 jobs left in the Basque Country and 3,500 abroad. Most employees in the Basque Country got jobs in other cooperatives. According to Errasti *et al*. (2016), it was the bad timing related to the financial crisis combined with the intensified international competition that was behind *Fagor Electrodoméstico's* crisis. In these years, many conventional firms in the global industry also closed.

The *Mondragon Group* developed a retail cooperative, *Eroski*, combining consumer and employee-ownership. It is one of the largest retail chains in Spain. In 2021, the *Mondragon Group* had 95 worker cooperatives with 132 subsidiaries and 23 higher-level entities. They had around 80,000 employees. It is the biggest business group in the Basque Country and the tenth in Spain.

The distribution of employment was in the 2018 around 44% in the Basque Country, 40% in the rest of Spain and 16% abroad. The membership rate was around 75% in the Basque Country, but low in the rest of Spain, and there are virtually no members in the foreign subsidiaries. Mondragon makes up 9% of industrial employments, 12% of investments, and 12% of R&D in the Basque economy (2020). The Mondragon Group is divided in four areas with the following share of employment: finance 3%, industry 47%, retail 48% and knowledge 2%.

2. Overcoming the organization problem— legal framework – worker cooperatives

Besides the national cooperative law 27/1993 there are specific Basque laws on worker cooperatives. The first, 1/1982, supported the autonomy of the Basque cooperatives and gave flexibility to develop the Mondragon model. The law 4/1993 included adjustments to the EU guidelines. The law 1/2000 facilitated the creation of new cooperatives. The 6/2008 law on small cooperatives with 2-10 members was not relevant for the Mondragon group but promoted a wave of small new worker cooperatives in the Basque country. The 11/2019 law leveled the playing field for the Mondragon cooperatives in relation to going international.

The Mondragon model is to a high degree based on internal rules based on the experience and needs of the cooperatives. Job stability, safety, environment, and equality are high priorities.

The Mondragon model emphasizes cooperation between the cooperatives. The *Mondragon Group* is led by a *Congress* with 650 representatives from the cooperatives. The number of delegates follows broadly the number of employees, but with overrepresentation of the smaller coops. The congress selects a *Standing Committee* as the monitoring body. This committee elects the *President,* and the *General Council* is responsible for group strategy and coordination between the four *Areas*. Each *Area* coordinates between the attached cooperatives. The biggest *Area*, manufacturing, has 11 divisions.

The right to control. The base worker cooperative is the core in the group. Each member has a vote at the *General Assembly*, which elects the *Governing Council* among the members. This is the governing body, and it selects the *Management Council* and the *CEO*. There are a *Social Council,* a *Grievance Committee,* and a *Monitoring Commission* protecting the interests of the members and monitoring that the cooperative principles and accounting rules are followed.

The right to surplus. Minimum 5% of profits are allocated to the *Education and Promotion Fund* - in Mondragon 5-10%. Minimum 20% go to the collective *Obligatory Reserve Fund* - in Mondragon 20-25%. The general assembly decides about the allocation of the remaining profits. Some go to the voluntary reserve funds, and some go to the solidarity funds related to the group structure. Cooperatives in the industrial division contributes with 5% of their surplus and the bank, *Laboral Kutxa,* contributes with 7% of the profits after tax and interest on the share capital.

30-70% of profits go to *dividends* to the members' individual accounts depending on the financial situation of the cooperative. Interest can also be added to the individual accounts. The maximum interest rate is central bank interest + 6%. Negative results may result in deductions of the individual accounts. Dividends and interest are only paid if decided by the general assembly. The dividends are distributed in proportion to wages, the interest in proportion to the value of the individual accounts.

The right to wealth: The accumulated capital in the collective reserves and the education and promotion fund are indivisible. This is also the case for the capital going to group funds. The accumulated amount on the individual account is paid out to the individual member when leaving the company. It can be considerable amounts making the equivalence of several years pay. However, this is based on the accumulated values in earlier years. It is not the individual share of the market value of the firm when exiting the company like it is the case in the American ESOP.

In case of liquidation, the external debt of the company is covered first, then the share capital is covered in the following order: 1) The *Education and promotion fund* is at the disposal of the *Higher Council of Cooperatives of the Basque Country*. 2) Members are reimbursed for their contributions to the share capital, first the voluntary and then the mandatory. 3) Members are reimbursed for their share of the voluntary distributable reserve funds. d) The collective reserve fund is the last buffer. Anything left is placed at the *Higher Council of Cooperatives of the Basque Country*, except as provided for in the rules of the Mondragon group: it goes to higher cooperatives in the group.

3. The problem of entry and exit of employees

After a trial period of 6-12 months, an employee can become a member by paying a compulsory capital contribution of around 13,000 euros. This amount varies a bit between the different cooperatives but within the cooperative, the contributions are equal. The money goes into the employee's internal capital account, which including interest and dividends are recoverable, when the member leaves the cooperative. Loans and/or repayment schemes are available for the entering new members. In later years, the Basque government has offered 1500-2500 Euros to each new partner on certain conditions. On top of this, an entry fee of 20% of the capital contribution must be paid to the collective reserves. This amount is not recoverable by the individual worker.

The cooperatives may have some temporary workers with maximum three years of employment. The hours by non-member workers may not exceed 30% of the total hours by worker-members.

4. The problem of startups and takeovers

Over the years, the *Mondragon Group* has added new startups, included external worker cooperatives in the group, and conventional companies have been transformed to worker cooperatives and included in the group.

In the 1960s, the bank had a special unit acting as an incubator for new cooperatives. In the 1970s, *Saiolan*, was developed as an incubator under the engineering faculty of the Mondragon University. Currently the dominant strategy is diversification of new businesses within existing cooperatives by acceleration of R&D projects and access to new technologies and markets.

A cooperative from outside can apply to join the group by accepting Mondragon rules including pooling part of the profits in the relevant division. Mondragon cooperatives also have subsidiaries that are not cooperatives, and these may go into a process of becoming a cooperative in the group.

The cooperative consumer chain, *Eroski*, is a mixed cooperative with 50% votes for the consumer members and 50% votes for the worker members. Around the financial crisis in 2008, it had expanded by acquiring several chains in Spain. The plan was to convert them to cooperatives. However, the crisis in the following years meant that *Eroski* had to sell many of the subsidiaries and the planned cooperativization could not continue. Today, only the parent, *Eroski*, is a cooperative.

In December 2022, a large majority of the members in nine cooperatives in the Ulma group (2800 members) and the Orona cooperative (1700) voted for exiting the Mondragon group. This means a fall of 13% of employees (11,000) and 15% of sales for the group. The leaving cooperatives wanted more autonomy and financial independence. However, they will continue as cooperatives and continue cooperation with the Mondragon group in certain areas.

5. Overcoming the capital problem

Like in the rest of Spain the accumulation of mandatory savings into collective reserves, makes an important contribution to equity capital in the Mondragon cooperatives. The individual capital also contributes strongly to the equity capital of the cooperatives. The initial individual contribution of capital is high, and during the employment in the cooperative, there is high accumulation of savings through interest and dividends added to the individual accounts.

On top of the contributions from the worker members, the cooperatives may have associated members including other cooperatives that may contribute with extra equity capital. One of the core elements in the success of Mondragon can be found in the role of the Mondragon bank, *Laboral Kutxa*. Through this bank, the cooperative group has mobilized capital from savings in the region. *Laboral Kutxa* supplies about 50% of the loans to the cooperatives. Other banks and a more diversified financial structure have helped the cooperatives to expand into quite capital-intensive sectors. The financial system has helped the group to overcome periods of crisis including the closure of the biggest industrial cooperative, *Fagor Electrodomésticos*, and the crisis in *Eroski*.

The group structure with pooling of some of the profits has been important for the crisis resolution and the continued growth. This is related to the part of profits going into the Cohesion and Development Fund, which is used both for covering losses and more forward oriented initiatives like: training, R & D, restructuring, and innovation. There are special funds for expansion: The *Divisional Expansion Fund*, which is managed by each division, and the *Interdivisional Expansion Fund*, which is managed by *Mondragon Investment* – a second degree cooperative playing an important role for internationalization, innovation, and consolidation.

Tax treatment of individual members: Like in other Spanish worker cooperatives, the yearly wages are considered as advance payments from economic activities in the cooperative. In practice, they are treated as wages and taxed as personal income. The interest and dividends on the individual capital accounts is not taxed before it is paid out when the employees leave the cooperative, and then it is taxed as capital gains.

Tax treatment for cooperatives: On top of the national law, 20/1990, on cooperative tax, the Basque Country has a regulation 2/1997 with specific rules for different types of cooperatives. The amount paid to the *education and promotion fund* and 50% of the amount allocated to the mandatory collective reserves are deductible in the tax base. This is also the case for the interest paid on individual members' initial contributions to their share capital if it does not exceed the leading interest rate set by the Central Bank, plus two percent for members and four percent for associate members. Dividends paid to the individual members accounts are not deductible for the cooperative.

6. Overcoming the risk problem

Like for most worker cooperatives, the employment in Mondragon is more stable than in other firms. The solidarity between the cooperatives – the inter-cooperation mechanism – gives extra security. When the biggest cooperative, *Fagor Electrodomésticos*, closed down some employees retired, and the rest found employment mostly in other cooperatives. Therefore, the double risk of both losing the job and the capital stake is quite small. Furthermore, the considerable potential savings of individual capital can be considered an extra benefit *on top of* the secured pension.

In 1958, the Spanish government excluded worker cooperative members from the social security scheme. Therefore, Mondragon created its own system through *Lagun Aro*. Nowadays, besides social security and unemployment benefits, *Lagun Aro* also takes care of health issues, family allowances, and pensions. Therefore, Mondragon has a safety net, also covering situations where the employee-members lose their individual capital stake.

7. Conclusion

The Mondragon group has a specific model for a democratic worker cooperative with quite strong individual ownership elements. The governance structure for the Mondragon Group with joint organizations and cooperation between the cooperatives in the whole group and in the four areas play a major role for their development and competitiveness. The group has models for startups of new firms and for the conversion of conventionally owned firms into cooperatives. The entry and exit of members are defined in the overall model. However, in connection to the expansion to other parts of Spain and abroad, they have set up many subsidiaries without employee-ownership.

The capital problem is solved by a combination of collective reserves and individual accounts. The strong emphasis on individual capital-contribution at entry and the further accumulation of interest and dividends during the period of membership, distinguish the Mondragon cooperatives from worker cooperatives in the rest of Spain, Italy, and France. The individual accounts are based on accumulated savings over the years not a market valuation of individual ownership shares.

The group structure means mutual help between the cooperatives. The financial structure with *Laboral Kutco* in the center and the development of a quite diversified financial structure has helped the group to overcome the crises of the largest cooperatives in the group, *Fagor Electrodomésticos* and *Eroski*, and to secure consolidation and further development. In successful cooperatives, the individual employee can accumulate significant values for payment upon retirement. This is an important part of the capital base in each cooperative and makes an incentive for each member for savings and investments in their cooperative. This involves some risk, but there is an independent pension scheme for the employees that ensures the pension even if the individual capital is lost.

7. Employee-ownership in the UK – the EOT model (mainly based on Pendleton et al. 2023)

1. Prevalence

The cooperative idea dates back to Rochdale, UK, 1844, with the principles of open membership, one vote per member, etc. However, the number of worker cooperatives in the UK peaked already in the 1890s (Jones, 1975). There was a new wave of small cooperatives from the mid-1970s to the mid-1980s, supported by the rules of the *Industrial Common Ownership Movement*, ICOM-Act from 1976 and the *Cooperative Development Agency Act* 1978. In 1984, there were 911 worker cooperatives with around 9,000 employees (Bartlett and Uvalic, 1986). In addition, the Government supported some defensive employee takeovers, the so-called Benn co-operatives, including closure-threatened *Scottish Daily News, KME* and *Meriden Motorcycles*. Jobs were saved for some years and *Meriden* was successfully sold to an American manufacture. But the other Benn cooperatives left a negative perception when they finally closed. According to *Co-op UK*, there are now under 400 worker cooperatives. Most have less than 5 employees, making a total of around 2000 employees.

Some of Thatcher’s privatizations was taken over by employees, and in the 1980s the Conservatives implemented laws that, in addition to profit-sharing, allowed the creation of ESOP type structures.

Employee-owned firms became more widespread in the UK from the mid-1980'es and early 1990s often as conversions using a "case law ESOP" inspired by the US type ESOP. It combined the case law on trusts and legislation on share-based profit sharing. In contrast to the US, the UK "*case law ESOP*" gave employees direct access to shares after a short holding period rather than at retirement. These ESOPs were the dominant form of conversions to employee-ownership up to the 2000s, but the yearly growth was rather low (Pendleton 2001). Legislation in the late 1980s introduced the so-called "*statutory ESOP*". The former owner got a rollover relief for shares sold to a QUEST (*Qualifying Employee Share Trust*). Despite this tax-relief, the "*statutory ESOP*" never became widespread, probably because it was a condition that a majority of the trustees was elected from the workforce. It was less flexible than the "*case law ESOP*" and the "*statutory ESOP*" law was repealed in 2003.

The growth of employee-owned firms speeded up after 2000 with further acceleration following the 2014 legislation on the *Employee-ownership Trust* (EOT). Most new employee-owned firms are EOTs. adding around 250 EOTs each of the recent years. That includes existing employee-owned firms changing to the EOT format. According to the EFES-list of majority employee-owned companies with more than 100 employees. The UK topped the list in 2021 with 136. France had 114 (Mathieu, 2022:115).

The June 2022 *White Rose Employee Census found* 1070 companies "substantially employee-owned" with more than 200,000 employees. This excludes worker cooperatives and small partnership with three members or less. It includes firms with more than 25% employee-ownership. However, these companies have on average 85% employee-ownership and more than half of them are 100% employee-owned. They are spread over a broad specter of industries with the strongest weight in professional services 28%, other services 22%, manufacturing 13%, construction 13%, wholesale and retail 11% and ITC 9%. The 2020 *White Rose Employee Survey* of 260 employee-owned firm found the average number of employees to be 449, with a median of 36. 10% of the EOTs have less than 10 workers. 5% have more than 250. 92% of the firms have indirect trust ownership, while 17% have direct individual ownership. The overlapping 9% are hybrids combining the two types. 58% of the EOTs are 100% employee owned. 96% have majority.

Direct ownership based on individual employee shares has been promoted by two broad all-employee schemes, SAYE and SIP. SAYE - *Save As You Earn* - is a plan for all employees. The company grants the employee an option to buy shares at a future date with up to 20% discount. The employee agrees to save £5-£500 per month and receives a tax-free bonus at a fixed interest for 3-5 years. At the end, the saved amount can be paid out or used for buying the shares. SIP - *Share Incentive Plan* - includes *free shares* of up to £3,600 each year; *partnership shares* can be bought for up to £1,800 or 10% of salary each year. Up to two *matching shares* can be given per *partnership share*. *Dividend shares* are paid out of dividends on the SIP shares. There is no tax on the *free shares* and the *matching shares* if the employee keeps them for five years (HRMC 2023).

In the *indirect* model, the shares are held permanently in the trust on behalf of the employees. This was facilitated by the 2014 law on *Employee-ownership Trust, EOT*. Before that another indirect model, the "*case law ESOP*" inspired by the US type ESOP, had been quite popular.

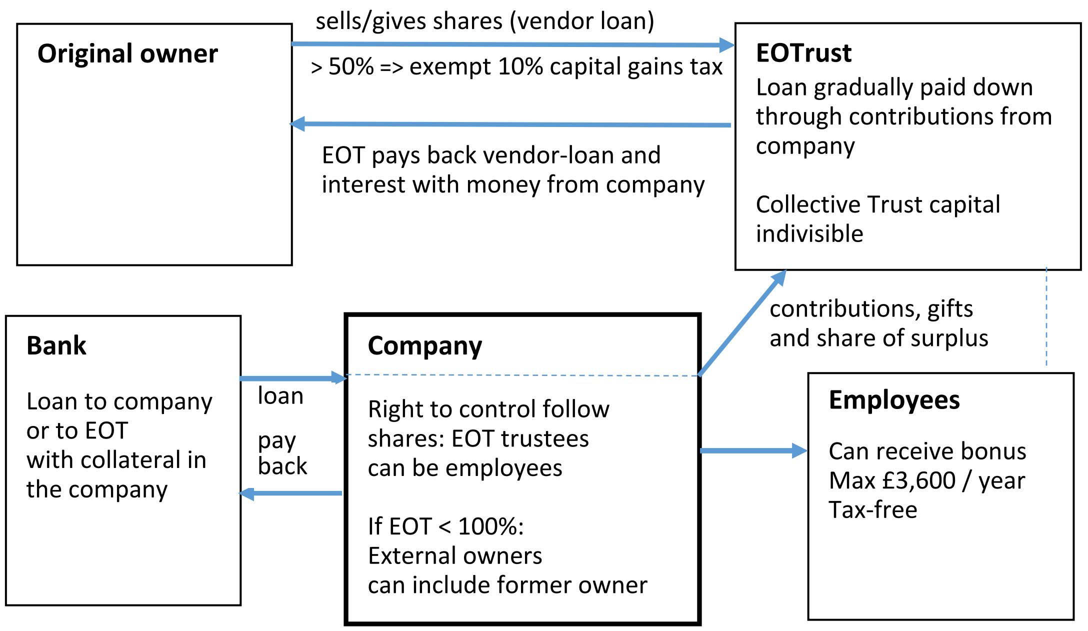
The *hybrid* model combines the trust model with individual employee shares.

The EOT model is inspired by the largest employee-owned compan, the *John Lewis Partnership,* one of the largest department store chains in the UK. Between 1929 and 1950 the company was gradually taken over by an employee trust. Each year, a significant part of profits is distributed to employees as a bonus, but the employees have no ownership rights in relation to the company's own funds. After high growth over many years, the number of employees/partners peaked at 93,800 in 2015. In 2022 there were 80,900 employees/partners. The decline was due to subdued demand in recent years, related to Brexit and the transition to online commerce.

2. The EOT model

In 2014, the EOT was introduced. It largely follows the *John Lewis partnership* model. If a departing owner sells a stake of more than 50%, to the EOT, there is an exemption of capital gains tax (standard rate 10-20%) and on inheritance tax, which is relevant if the shares are transferred below market value. The EOT is an attractive form of owner exit and business succession. It is often a staged exit where the owner starts with a transfer of the majority and keep a minority stake for some years.

Figure 7.1 EOT model



The typical EOT takeover is illustrated in figure 7.1. The company pays voluntary contributions from profits to the EOT. The EOT uses the money to buy shares from the owner. The former owner may lend money to the EOT. This vendor loan is paid back in instalments from the EOTs share of profits in the following years. The EOT may also get a bank loan to finance part of the takeover. The loan can be secured against the assets/cash flow of the company. Often, the loan is taken by the company and used to increase the initial contribution to the EOT. Then the company can deduct its interest in the taxable profits. The loan is paid back by contributions out of profits from the company.

1) The company takes a bank loan.

2) The company gives the money to the EOT.

3) The EOT uses the money to buy the majority of the company.

The company can deduct the interest on the loan but not the installments. The contributions from the company are tax-free for the EOT. However, in contrast to the tax treatment in the US the contributions from the company to the EOT are not deductible in the company's taxable profits.

The company can pay the employees a tax-free bonus of up to £3,600 per year. This is a broad all-employee scheme. The trust must "serve" all employees on an equal basis or to differ from this only by reason of their remuneration, length of service, or hours worked. The employees can have decisive influence, so the model allows for full employee control. The EOT model is based on collective reserves. The employees do not own shares of the company to withdraw when exiting as it is the case in the American ESOP. However, the legislation makes a possibility for a *hybrid* model if combined with individual employee shares like SAYE or SIP.

A key element in the EOT-model is the role and powers of the trustees, which is set out in the "trust deed". The main responsibility of the trustees is to protect the interests of the employees as owners of the company. The composition of the trustees or the board of directors of the trust may include some employees elected by the whole workforce. However, this is not precisely settled in the law and therefore, there is much discretion for this composition. It is possible to make a trust with only employees as trustees. However, this is only the case for 1% of the surveyed cases. The trustees can be directly elected by the employees like in a worker cooperative. In 21% of the surveyed cases the proportion of employee trustees are 50% or more. On the other hand, the former owner may select the trustees and they select their followers as trustees. There need not be any employee trustees. This is the case for 22% of the trusts.

The White Rose Survey 2020 shows that in 73% of the trusts have company directors as trustees; 78% have employee trustees; 63% have independent trustees, and 43% have retiring owners among the trustees. Employee trustees are elected by the workforce in 61% or by an employee council in 8% of the cases. They are selected by management in 28% and by the trust in 2% of the cases. 51% of the companies have employee representatives on the company board. 36% have an employee council as the primary governance mechanism.

3. Entry and exit of employees

Getting a job in the EOT owned company makes the employee a beneficiary of the EOT – possibly after some minimum length of employment. There is no entry fee to pay for new employees, and since the EOT is collectively owned, there are no individual stakes with potential capital gains, and no ownership issues to administer and calculate when the employee is leaving the company.

4. New startup and takeovers

In a survey from 2020, the *White Rose Centre* found that 69% of the employee-owned firms were business successions where a retiring owner sold to the employee. In 20% of the cases, the former owner shared ownership before retiring. 5% were spin-offs from the public sector, and 2% from the private sector. Only 3% were new startups and only 1% defensive rescue take-overs of a failing firm. The EOT seems not to be well fit for startups. Initial funding often come from the founding members in combination with bank-loans. The advantage of EOTs is the transfer of already accumulated capital, and the former owner's desire for business succession through the employees. In the 2020 survey, the most important reasons for the former owner to convert to employee-ownership was long run survival of the company (73%) and sharing rewards with the employees (65%).

5. Finance

Access to finance has been a barrier for employee-ownership in the UK because of a lack of awareness, understanding, and expertise of the business model, but the strong development in later years and the growing legitimacy of the model made these concerns less important and a market for employee-ownership finance is developing. Specialist finance providers for employee-ownership have emerged. The use of vendor loans from the former owner have been important to overcome the external finance barrier. When the takeover is leveraged, there may be less working capital to fund growth while the debt is paid down. However, once the debt has been repaid, 'the EOT is fully independent without any external shareholders or owners, and the business will often have a greater opportunity to retain healthy working capital balances' (Hall and Gorman, 2021).

6. Risk

The EOT model based on collective reserves means that the direct risk for employees of losing capital is non-existing. However, in hybrid models with considerable individual employee shares there will be a risk for the individual employee of both losing the job and these shares.

7. Conclusion

There are very few worker cooperatives in the UK, but in recent years, there has been a significant increase in other types of employee-ownership. After new legislation in 2014, EOTs have spread very fast and is now the dominant type of employee-ownership also covering quite large companies. The model is indirect collective ownership governed by trustees acting in the interest of the broad group of employees. The governance structure may both include direct control of the employees and more arm's length governance often with some influence by the former owner. All employees are included, meaning that entry/exit of employee-owners are not an issue. The model is appropriate for takeover successions and rarely used for new startups. The financing of the takeover is both facilitated by vendor loans from the retiring owner and external loans. Exemptions from the capital gains tax and inheritance tax explain some of the EOT success. The employee may get an annual tax-free profit-sharing bonus of max £3,600. There are no employee contributions and no individual possibility for capital gains and therefore no capital risk for the employees unless employee ownership is implemented in a hybrid format with individual employee shares.

8. Employee-ownership in the US - the ESOP model based on Rosen 2023, Blasi & Kruse 2023

1. Prevalence

The American history of employee-ownership dates to the independence. In the 1880s, the largest trade union had worker cooperatives as their strategy rather than strikes (Blasi *et al.*, 2013). "Self-help" cooperatives were set up under the *New Deal* in the 1930s. There was a strong local cluster of Plywood worker cooperatives in the Northwest from 1921, peaking in 1950s, but then most of the production moved to the Southern US. The employees stayed in their local communities and the cooperatives closed. In the 1960s and 1970s, a new wave emerged, particularly in food retail. It was predominantly consumer cooperatives but with the employees as key members. There were around 1000 small cooperatives with 17,000 employee-members in 1979 (Curl 2012). However, in 2021, the *Democracy at Work Institute* (DAWI) registered only 612 worker cooperatives with 5,966 workers. *https://institute.coop/resources/2021-worker-cooperative-state-sector-report*

According to Kruse *et al.* (2010), the US is now leading in "*Shared Capitalism*". 53 million, 47% of private employees, join at least one form of *financial participation*. 38% have *profit sharing*, 27% *capital gainsharing* and 18% have *shareholding* in their company. The ESOP is the dominants form of employee-ownership sometimes combined with direct forms of individual share ownership, 401(k) plans, forming so-called "KSOPs".

According to the *National Center for Employee-ownership* (NCEO), in 2016, there were 6,624 ESOPs with assets of $1.4 trillion covering 14 million employees. That is on average around 100,000 USD per participant. Other estimates show for the period 2001-2016 that the average holding per participant in non-listed ESOPs increased from $55,000 to $142,000. NCEO found for 2019, 6,482 ESOPs of which 5,880 were non-listed and 602 publicly traded. The non-listed ESOP have on average 255 active employee. 3,404 have less than 100 employees and 2,476 are larger, 561 on average. The 602 large, listed ESOP companies have on average 14,500 employees. Most ESOPs in listed enterprises are minority holdings with less than 3% of the total shares. About half of the non-listed companies have majority employee-ownership, mostly 100%.

The ESOPs cover a broad spectrum of industries, with a strong presence in knowledge intensive enterprises in professional services and hi-tech. However, they are also strong in the retail sector.

In 2010-2016, the number of non-listed ESOPs fell from 6,054 to 5,740. In the same period 1,368 new ESOPs were established, on average 195 per year. This means that annually on average 240 stopped the ESOP format. According to Rosen (2023), most of these were sold to external investors. This is often the case when a strategic investor can exploit synergies by taking over the ESOP company. Therefore, the investor may offer a premium exceeding the normal market valuation. Such an offer is tempting for the trustees and for the ESOP employees who must do a confidential vote on the sale.

The ESOP is an *all-employee plan* meaning that especially employees with low wages get a considerable lift in wealth. This happened in a period when real wages increased less than return on wealth.

2. Overcoming the organization problem— the ESOP model

Most majority employee-ownership in the US is found in ESOPs, which were initiated in 1974 connected to the pension legislation, ERISA, *Employee Retirement Income Security Act*. This law provided the framework for ESOPs and conferred significant tax advantages. The model follows the traditional retirement plan with tax-free contributions to retirement savings in securities. While the traditional pension plan demanded diversification of the assets the ESOP can concentrate investments in the employer company. However, the ESOP was not exempted from the requirement that the assets should be governed by a trust securing the assets in the retirement plan.

The right to control: All the shares in the ESOP are held in a trust. The trustees vote the shares. In listed companies, the employees must have the class of shares with the highest voting rights, and they can direct the trustees how to vote the shares. The minimum Federal voting rights mandate that employees in every ESOP must have a confidential vote organized by a third party on all major corporate events such as sale of the firm, bankruptcy, recapitalization etc. However, the election of board members is not a required voting issue. Most ESOPs have a board of trustees that is not directly elected by the employees, but self-supplementing or chosen by the company. According to NCEO (2021), 75% non-listed ESOPs have independent board members, while very few non-ESOPs do.

ESOP-companies can pass through full voting rights and there are many examples where the employees elect the company board like in a worker cooperative. In a survey of 319 ESOPs, NCEO found that in 15% of these, employees elected the board. Assuming this is representative, there are around 1000 fully employee-owned ESOPs. According to Rosen (2023) many ESOP companies gradually move to more democratic governance structures e.g., by including employees in the board and giving them more say in day-to-day work practices.

Rosen (2023) argues that there is a trade-off between strict democratic criteria of employee control and the incentives for former owners to sell to an ESOP. They may be afraid of giving over full control to the employees. The former owners may continue to have some control by keeping some of the shares, even a majority, and by making a trust deed where the control by the employees is limited. Rosen argues that more strict demands on democracy would mean much less ESOP takeovers.

The right to surplus: The ESOP takes over the right to profits in proportion to the share of ownership. The contributions to the ESOP from the company are distributed on the individual employee accounts in proportion to their share of wages or more equally. There is a cap of around $300,000 on the yearly wage for this calculation. According to Blasi and Kruse the company pays dividends on the ESOP shares in 70% of the cases. The distribution of dividends on the individual accounts may follow the distribution of shares.

The right to wealth: The ESOP trust is an *indirect* way of ownership like the British EOT. However, in contrast to the EOT with collective ownership, the ESOP employees individually own the accumulated wealth. Employees who have worked for 1000 hours in a year are eligible for contributions and dividends from the company to their individual ESOP account in the following year.

The cash is transferred to shares in the company at least once a year. However, the shares taken over by the ESOP through loans are held in a suspense account and released to the individual employee account as the loan is being repaid. For listed companies the stock market determines the value of the shares. For unlisted shares, the price paid by the ESOP when buying the shares and the price involved in relation to the distribution and buyback of the shares from the employees' individual accounts, must be based on a valuation of the shares by an outside, independent appraiser.

It may take some time before the individual employees have the full rights of disposal and possibility of selling their shares. If the employees leave the company, their shares shall be exchanged for cash within six years. This gives the company some leeway, but most often, it happens faster. When an employee has been employed for five years and when passing the age of 55 years, 25% of the shares can be diversified to other shares. At the age of 60, the employee can diversify 50% of their shares. This is a way to limit the individual risk when getting closer to retirement.

3. The problem of entry and exit of employees

The ESOP is an all-employee plan. This makes entry quite easy under the condition of minimum 1000 hours of employment in the year before being part of the ESOP. The exit is more complicated, and the administration of the individual accounts can be a challenge for small non-listed companies. A yearly valuation is necessary together with the administration of the contributions to the individual accounts and the transfer from cash to shares. Rosen (2022) estimates that the company should have at least 20 employees before an ESOP would be relevant. All permanent employees own a share of the ESOP trust. When employees leave the company, they can extract the value of their share.

Because the trust is the legal owner, employees are not considered as owners. They have full rights as *wage earners* to workers' compensation insurance and coverage under the US social insurance.

4. The problem of new startups and takeovers

The ESOP model is not made for startups, but it is excellent for employee takeovers from a retiring owner. The ESOP model allows an employee fund to take ownership of the company in whole or in parts. This can be done gradually through contributions from the company, or through a *leveraged ESOP* financed through a loan to the ESOP with collateral being the company itself. It is often a combination of a bank loan and a vendor loan from the selling owner. The loan is paid back through contributions and/or dividends from the company.

Figure 8.1 ESOP model (C-corporation)

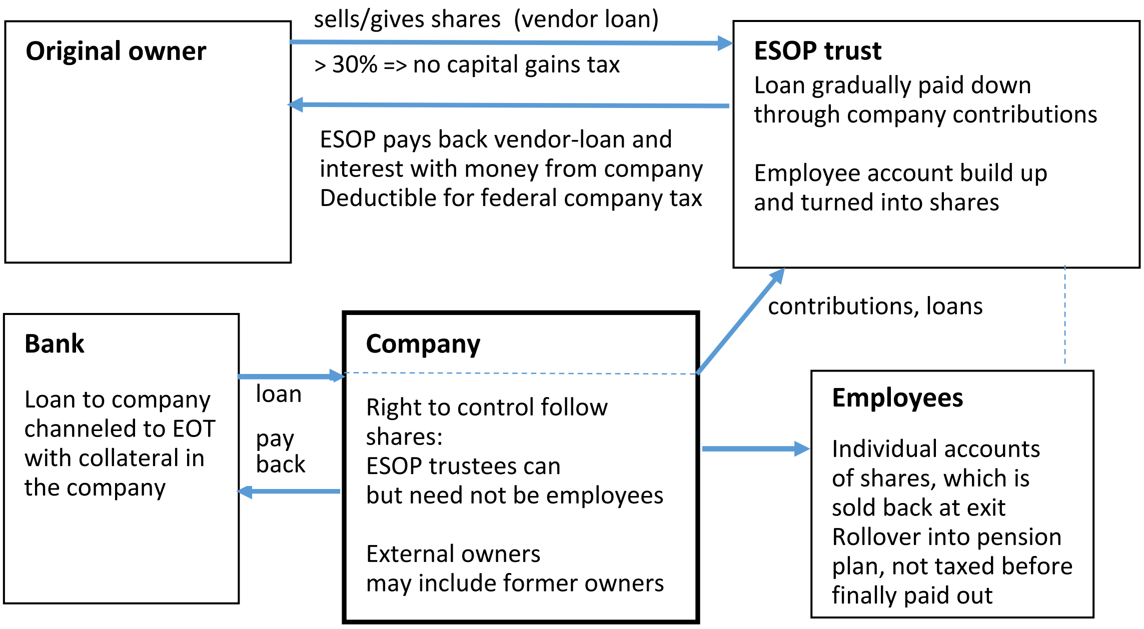


Figure 8.1 illustrates the ESOP buyout financed by company contributions not by the employees. To make a fast transfer the payment to the former owner is in 80% of the cases done by a *leveraged ESOP* where the price is paid by a combination of a bank loan and a loan from the former owner. The ESOP pays back the bank loan and the vendor loan as it receives contributions from the company.

5. Overcoming the capital problem

ESOPs have become widespread in the US. Consultants and banks are familiar with the format. It has reached the "critical mass" of private recognition. Thus, special financial institutions are not necessary to overcome the capital problem. This is probably also due to the favorable tax treatment:

If the ESOP gets at least 30% of the ownership of a C-corporation *the former owner* can defer capital gains tax by reinvesting in US securities. If these securities are held until death, the capital gains basis is stepped up so that no taxes are due. A C-corporation can from the profit base for federal company tax, deduct both interest and installment on a bank loan channeled to an ESOP. Dividends can also be deducted. An S-corporation 100% owned by an ESOP does not pay any Federal company tax. It passes through the final tax onto the *employee-owners*. If the shares of an S-corporation are owned 60% by an ESOP and 40% by the former owner there is no tax for the 60% in the first round, but the profits on the 40% is taxed as personal income for the former owner. Both for C- and S-corporations, the employees are not taxable before the money is paid out, most often as part of their pensions like for all retirement plans. The company contributions to the ESOP are taxed as personal income while the increase in share value is taxed as capital gains.

6. Overcoming the risk problem

ESOP employees have the risk of both losing their job and the value of their individual ESOP account. Kruse *et al*. (2019) have addressed this issue based on the US Federal Reserve Board data from annual surveys of consumers' economic conditions 2004-2016. The analysis is based on the finding by Markowitz, winner of the 1990 Nobel Prize in Economics, that an individual employee's investment portfolio otherwise invested in a diversified basket of stocks, could hold up to 15% in employee-owned company stocks without a substantial increase in risk. The analysis shows that 15% of families with at least one privately employed family member have employee-owned assets as part of their portfolio and 19% of these families have over 15% in employee-ownership assets. However, as noted by Kruse et al. (2019) Markowitz' analysis refers to stock purchased by the employees with their private wages or funds not to grants or gifts. Because the typical ESOP does not involve employee personal payments for the stock, it is unlikely that many ESOPs meet this risk profile.

Research by Wiefek & Nicholson (2018), and Kruse et al. (2019) shows that most ESOP employees beside the ESOP have a separate diversified retirement plan. Blasi *et al.* (2013) find that employees-owned firms are four times more likely to offer their employees a diversified retirement program. If the ESOP goes out of business, they still have a typical US pension. Moreover, employee-owned firms have a lower risk of layoffs in times of crisis (Kurtulus and Kruse, 2018). Concentration of 10-15% of the wealth in employee stock is less of a problem if the rest of the family's fortune is well diversified and the firm has a separate diversified retirement plan. The most widespread risk concentration of employee-ownership is in individual shares and pension schemes where employees purchase the shares. This is the case for employee shares in so-called 401(k) schemes, where the employees pay for the shares themselves. Contributions to ESOPs come from the company. They are not deducted from salary or individual savings. They are in addition to other personal savings and pension schemes.

In the NBER survey, involving 40,000 employees in 14 large firms in the US, Blasi *et al.* (2010) found that 40% of the employees responded that the value of their employee shares exceeded the critical 15% level. However, most of these were classic ESOPs where the employees did not purchase the shares. The analysis also showed that an additional dollar of employee-ownership could be observed as a 94 cents addition to total wealth for the average employee. Thus, employee shares are not substituting other assets (Buchele *et al*., 2010).

Nevertheless, it is not reasonable to ascribe no risk to an ESOP employee who may both lose the job and share of the ESOP, even if the employee did not pay for the shares. It would be a serious loss for a worker. Therefore, the Federal law allows ESOP workers of a certain tenure and age close to retirement to diversify their ESOP holdings into other assets.

In the longer term, the ownership of broader groups of employees mean that they receive a share of the return on capital including capital gains and thus a greater share of both income and wealth.

7. Conclusion

ESOPs are widespread in the US. Democratic ESOPs represent only 5-10% of them, but most ESOPs are majority owned by the employees, and there is a tendency for developing more democratic governance in many of them. There has been established a significant number of ESOPs creating a "critical mass" of employee ownership. The ESOP model has become a well-known "corporate form" and a realistic option for both existing owners and employees. A well-functioning consultant network has been built up. There are good financing opportunities, and with the leveraged ESOP model, *the capital problem* is solved especially for small and medium-sized enterprises. *The risk problem* for the individual employee is limited because the contributions are not deducted from the individual employee's salary. The employees do not purchase the stocks, nor do they put up any personal assets as collateral for the loans to the ESOP to acquire company stock. The ESOP savings come on top of other savings. The ESOP Fund being linked to *all permanent employees* resolves the *entry/exit problem* of employees. *The startup problem* is partially solved using ESOPs for takeovers with related favorable tax rules for both the previous owner and the employees.

The all-employee concept and the fact that employee do not have to pay any contributions to the establishing of the ESOP makes it a favorable option for all employees. ESOP employees, including those with relatively low wages, on average receive considerable capital gains, which contribute to lowering the high inequality of wealth in the US.

9. Comparison of employee-ownership in France, Italy, Spain, the UK, and the US

This concluding section compares the different experiences and models in the countries studied:

1) The prevalence, 2) the models with special rules in relation to the three ownership rights, 3) members entry and exit, 4) startups and takeovers, 5) financing, 6) risk. See Figures 9.1 and 9.2.

1. Prevalence

The five countries are selected because they all have quite many employee-owned companies. In France, Italy, and Spain, they have many worker cooperatives. Most are found in Italy with around 500,000 employees. France with a slightly larger population has only about 46,000 employed in worker cooperatives. Spain is in between with about 300,000 employees. Out of these, Mondragon accounts for around 80,000 employees with the vast majority as owners.

In France and Italy, worker cooperatives are roughly the same size as other companies in terms of number of employees when not including the large number of conventionally owned micro-enterprises. In Mondragon they are larger, but in the rest of Spain smaller. The British and American worker cooperatives are on average very small and not widespread. Therefore, the EOTs and ESOPs are in focus here. They are mostly medium-sized and large companies, and on average larger than the cooperatives in France, Italy, and Spain. About 1000 employee-owned companies in the UK have around 200,000 employees. In the US, 6,700 ESOPs have about 14 million employees. 600 ESOPs are large, listed companies with an average of 14,500 employees, but these ESOPs have only a few percent of the ownership. The small and medium-sized ESOPs are typically unlisted, majority employee-owned and have an average of over 300 employees. Of the 1000 employee-owned companies in the UK, the vast majority are majority-owned EOTs. Their average employee-ownership is 85%. They have on average about 450 employees.

The worker cooperatives cover a wide range of industries in France. In Italy, they have a relatively high weight in construction, transportation, and business services. Mondragon cooperatives are strong in manufacturing. EOTs in the UK and ESOPs in the US also cover a wide range of industries. In general, employee-owned companies are strongly represented in knowledge-intensive industries.

2. The models: worker cooperatives in France, Italy, and Spain, EOTs in the UK and ESOPs in the US.

In all five countries, the proliferation of employee-ownership is closely linked to legislation promoting the specific models. We first look at the worker cooperatives that have a long tradition in France, Italy, and Spain. The promotion of worker cooperatives is directly mentioned in the Italian and Spanish constitutions. In all three countries, the model is further defined in the legislation. These worker cooperative models are quite similar except for Mondragon, which has stronger emphasis on individual accounts. They all follow the ICA-principles with varying interpretations.

The right to control in worker cooperatives is based on one vote per worker member. However, all models allow for associated external members who can provide more capital and have more votes, but not controlling ownership. Their capital stakes must be below 50%, and their maximum share of votes is limited to around 1/3 for all countries. There are exceptions in relation to groups where one cooperative owns a share of another cooperative. In connection to startup of new cooperatives in France, it is permitted to have more than 50% ownership for ten years. In all countries, it is possible for cooperatives to own subsidiaries that are not cooperatives.

The right to profit: It is a common feature of worker cooperatives that a certain part of the annual profit is allocated to the collective indivisible reserves. The minimum varies from 15% in France to 30% in Italy. However, the actual invested percentage is on average much higher in all three countries. The cooperatives want a higher consolidation and there is a tax relief for savings to indivisible reserves. The allocation of profits to collective reserves has priority in relation to the individual shares until the collective reserves have reached a certain size.

Part of the profit is distributed as return on the individual member shares. In all three countries, there is a maximum for the interest rate on individual capital, which is the central bank's leading interest rate plus a surcharge of 2%-6%: If the cooperative has a deficit, there is usually no return on the accounts. This is the difference compared to member loans.

In Mondragon, the individual account has a higher priority. The general assembly may decide to use 30-70% of profits for dividends distributed proportionally to salary to the individual accounts. Losses are usually deducted from the collective reserves, but it can also be decided to deduct from the individual accounts. There is also a regulated interest rate on the individual accounts.

The right to wealth: It is characteristic for all the worker cooperatives slightly modified for Mondragon that the emphasis is on collective reserves and that the individual member shares function as loans - they do not entitle to a share of the increase in the market value of the company.

In Britain, there is a long tradition of cooperatives dating back to the first consumer cooperative in 1844, but worker cooperatives never gained a strong position in the UK. From the 1980s the legislation promoted employee financial participation and employees were offered profit sharing and employee shares in many companies. In general, it was relatively small shares. Some models could be used for employee buyouts through "case law ESOPs" and majority employee ownership increased faster after 2000, but the large wave of employee-ownership in the UK is linked to the 2014 EOT law.

The right to control: The EOT model is based on indirect ownership through a trust, and the EOT trustees exercise this control on behalf of the employees. The actual influence of employees depends on the statutes of the EOT. The rules for choosing the EOT trustees may give employees control like in a worker cooperative, but it is also possible to have trustees with high distance to the employees and with significant control by the previous owner.

The right to profits follows the EOT's share of ownership, which is usually 50-100%. The capital in the EOT is indivisible collective reserves. It gets its share of the annual dividends plus contributions from the company. There are no individual employee shares in the EOT. However, the legislation allows for payment of a tax-free bonus to employees of up to £3,600 per year. This bonus must be distributed equally with optional adjustment for salary and working hours.

The collective right to wealth of the EOT is like that of the worker cooperative. But the indirect employee control through the trust is like the US ESOP. However, in the ESOP In crucial matters, such as sale or merger of the company, employees have mandatory rights to vote their shares. In listed companies, they can instruct trustees how to vote for the ESOP shares. In listed companies, ESOPs usually have a small stake, while they own the majority in most non-listed ESOP-companies.

The significant difference between the ESOP and the other models is the strong element of individual ownership. Each employee is credited a share of the annual company contributions to the ESOP. These contributions are later exchanged for shares. When leaving the company, the shares can be exchanged back for cash at the estimated market value. This may result in considerable capital gains for all employees and contributes to a more equal distribution of wealth. The administration of these individual accounts and the share valuations in unlisted companies entail some administrative costs that do not apply to the EOT. The ESOP company can be sold if there is a favorable offer, and the majority of the employees approve the sale by a secret ballot. A number of ESOPs have been sold over time and therefore the number of ESOPs has not increased in later years.

3. Entry and exit of employee members

For the EOT, the rules for *employee entry and exit* are very simple. It is a scheme for *all employees,* and they are automatically part of the EOT when they are hired. In relation to the possible annual bonus associated with the EOT, it is paid on the same terms to all employees and can only be unequal due to differences in salary, seniority or working hours. The ESOP is also a scheme for *all employees*. However, an employee must have worked in the company for at least 1000 hours a year before participating and be 21 years or older. After withdrawal, it can take up to six years before the value of the individual shares is paid out. But most often it happens faster.

The workers' cooperatives in France, Italy and Spain follow ICA's principles of *open and voluntary membership*. There are minor differences between the laws in different countries, but the specific rules vary especially through different rules in the statutes of each cooperative.

All members must own at least one individual share. These shares are paid back when the members leave the cooperative. They are adjusted for interests and deductions for losses. In Spain including Mondragon, the new co-owner pays an additional entrance fee of 20-25% to the indivisible reserves. The deposits are in most cases quite low. There is a maximum and possibility of payment through installments. However, in Mondragon there is a starting deposit of 10-15,000 euros. The individual accounts are added both dividends and interest. Therefore, unlike most other worker cooperatives, Mondragon members can have significant amounts in their individual accounts.

There is often a maximum on the number of non-members. In France it is regulated in the bylaws of the cooperative, while in Italy it is an important condition for being a “prevalent mutuality" worker cooperative. The wages of non-members may not exceed 50% of the salary of all employees. In Spain, the total working hours of non-members must be less than 30% of the hours of all members.

4. The problem of startups and takeovers

In countries with many worker cooperatives, support organizations play an important role in starting up new cooperatives. This includes information, supervision, and financing. The strong cooperative organizations in France, Italy and Mondragon are very important for the development of new cooperatives. This includes group structures, where existing cooperatives help to start new ones.

Employee takeovers of existing companies have been promoted by new legislation in France. Companies are obliged to inform employees about this possibility and notify employees of a planned sale. CG Scop has actively promoted employee buyouts. In Italy, there has been special legislation in support of employee acquisitions, especially to save jobs in firms in crisis. Unemployment benefit and severance pay can be used for startup financing and exempted from income tax. This is also the case in Spain, where the employee has a right of first refusal when a company is sold.

The EOT and ESOP models are most often used for takeovers of successful conventionally owned companies where the retiring owner wants to transfer the company to the employees. In the UK there is a tax exemption for capital gains tax for the previous owner when the EOT takes over more than 50%. In the US, it is the case when the ESOP takes over at least 30% of the shares in C-companies. Mostly, it is majority acquisitions in both the UK and the US. The strong wave of new EOTs and ESOPs is associated with these rules.

The financing of the acquisitions is further supported by the possibility of tax deductions of company contributions to ESOP as well as interest and installments for the ESOP loan. This eases the loan burden of a leveraged buyout and provides easier access to bank loans. Unlike cooperative startups and takeovers, employees do not pay any stakes in EOTs and ESOPs.

5. Financing

There is a big difference between how workers' cooperatives and the EOT and ESOP models solve the problem of capital supply. Worker cooperatives in France, Italy and Spain use member deposits both as owner capital and member loans as important parts of the initial financing. This is followed by significant savings into collective reserves, especially in the early years of the worker cooperative.

This is complemented by external capital from affiliated members with restricted rights to control. Other cooperatives and previous owners may contribute capital at startup or in connection with a takeover. In France, there is a limit to how long the parent cooperative or the previous owner can have a significant shareholding with associated voting rights. In Mondragon, the group structure is important. In the countries with many worker cooperatives, there are special cooperative banks and financial institutions providing loans, often supplemented by government guarantees and support - in Italy and Spain especially in relation to the takeover of companies threatened with closure.

The financing is supported by various types of tax benefits:

Spanish worker cooperatives pay 5% to a special *Promotion and education fund* and their corporate tax is reduced from 25% to 20%. There is a similar system in Italy. When worker cooperatives invest in indivisible collective reserves, these are fully or partially deductible from the tax base.

There is an exemption from capital gains tax for the former owner if selling more than 50% to an EOT in the UK and at least 30% to an ESOP for C-companies in the US. Contributions to ESOPs, including interest on loans to ESOPs, are deductible for the company. In the US, S-companies are not liable to tax in relation to federal corporation tax. Tax is paid by the final receiving owners.

Once the value of the individual ESOP shares is paid to the employees, they can defer the tax by transferring them to a pension scheme. When the money is finally paid out, the initial contributions from the company to the ESOP are taxed as wage income, while subsequent increases in value are taxed as capital gains.

6. Risk

When employees invest individual capital in their business, they are exposed to the risk of losing that capital. This comes on top of the risk of losing the job. In the countries surveyed, employment is more stable in the employee-owned companies compared with other companies (Mygind and Poulsen, 2021). The employees' risk of losing significant saved capital varies greatly between the different models. In the worker cooperatives, the individual employee deposits are typically very small. The large part of the savings goes to the collective reserves. This is also the case in the British EOT.

The risk of losing capital is significant in the models, where employees can build up great values in their individual accounts. This applies to the Mondragon model and the US ESOP. After a long period in a successful cooperative in Mondragon, an employee may have a significant amount in the individual account.

The same goes for ESOP employees in the US with high value of their individual shares released when leaving the company. However, the significant capital that employees have in their individual accounts in a typical ESOP is not paid by contributions from the employee. The ESOP buyout and the accumulation of the values on the individual accounts is based on contributions from the company. Furthermore, most employees have other sources of pension, and the value of their ESOP accounts are supplementary savings - it is only these extra savings they risk losing.

In Mygind (2023) in this issue, there is a deeper comparison with pros and cons of the three models of employee ownership: worker cooperative, EOT and ESOP.

Figure 9.1 – Overview over models of worker cooperatives in France, Italy, and Spain

	France	**Italy**	**Spain**
Prevalence	2,450 SCOPs (2022) 46,000 employees 150 CAEs, 12,000 employees 1,300 SCICs (Social enterprises) 14,700 employees	24,000 worker cooperatives 506,000 employees (2020) 44% of all types of cooperatives 42% of all employees in all types of cooperatives	17,600 worker cooperatives 305,000 employees (2021) 7,800 employee-owned ”Sociedades Laborales” with 55,000 employees
Growth periods	1990 -1914, 1930-1947, 1980-1985, 1993-2007, 2014-	1900-1914, from 1945 and 1980-2007	Worker cooperatives 2000-2010 Soc. Laborales halved since 2009
Specific Industry structure	Broad spectrum manufact., construction, service later years: + knowledge PST	Broad spectrum Construction, light manufac-turing shift to business-services	Broad spectrum
Size	Few very small, micro < 2 Many middle sized Few very large	Few very small, Many middle sized Few very large	Small and middle sized
Support organizations	CG Scop plus 13 regional URSCOPs	1893 Legacoop - socialist 1919 Confederazione conservative 1945 Associazione - center	COCETA federation of regional support organizations
Model	+ ICA principles	+ ICA principles	+ ICA principles
Legislation	History back to 1850 Not directly in Constitution Reforms 1978, 1992 and 2014	Constitution 1948, Basewi 1947 Reforms 1992 and 2002 Support if “prevalent mutuality”	Constitution: promote coops Law 1999 and 2015 Special laws in 15/17 regions
Right to control	One vote per member	One vote per member	One vote per member
Right to surplus	25% profit sharing all employees = max to individual shares >15% to collective reserves collective reserves > individual 2019: 43% to coll. 40% to ind.	Min 30% to collective reserves 3% ”tax” to national coop. fund Ind. shares: max postbonds+2.5% Participation shares: +2.5% +2%	Min 20-30% t. collective reserves (Min 50% of extraordinary s.) 5% Education & Promotion Fund
Right to wealth	Collective reserves have priority Bylaws can =>high priority to ind. But normally first buffer	Individual shares most often very low amount	Individual shares most often low amount
External owners	Max 49% of owner capital, Max 35% of votes	Financial members law 2003 Max 1/3 of votes	Associated members Max 45% of capital, 35% of votes
Entry- and exit of employee members	1-3 years’ probation period Minimum one share/member Max price: 10% of wage/year Member may buy more later Exit: max 5 years payback time	Trainee-members Max 1/3 of total members Exit: payback max 6 months after approval of company accounts	Max 1 year probation period Minimum one share/member + 25% extra entrance fee goes to collective reserves
Max non-members	No general rule, but often specified in cooperative bylaws	Max wages for non-members 50% of total wages	Total hours for non-members less than 30% of total hours
Startups and takeovers	CG Scop and URSCOPs support Notification before sale of firm First right to buy	Cooperative org. supervision Support to defensive takeovers First right to buy	Cooperative org. supervision Support to defensive takeovers First right to buy
Financing	Individual shares and loans Accumulating collective reserves Special financial institutions Coop banks and organizations	Individual shares and loans Accumulating collective reserves Special financial institutions Coop banks and organizations	Individual shares and loans Accumulating collective reserves Special financial institutions Coop banks
Tax-advantages	Normal company tax, but deduction for investments in collective reserves	Normal company tax, 24% but 57% deduction for investments in collective reserves	Company tax 20%, normal 25% (5% Education and Promo Fund) 50% deduction for investments in collective reserves
Wage-earner rights	Full wage-earner status for SCOP og CAE employees	Choice of members being wage-earners or independents	Choice of members being wage-earners or independents
Risk	Low with small individual shares	Low with small individual shares	Low with small individual shares

Figure 9.2 – Overview - models for employee-ownership in Mondragon, UK - EOT and US - ESOP

	Mondragon Basque country	**EOT - UK**	**ESOP - US**
Prevalence	95 worker cooperatives 132 subsidiaries 23 support cooperatives 80,000 employees (2021)	1070 June 2022 Around 200,000 employees 92% EOT (incl. a few EBT) 17% individual employee shares 9% hybrid	6,700 (2019) 14 million employees 3,000 majority ESOPs with 2 million employees 1,000 democratic ESOPs with 300,000 employees
Growth periods	1956-2007 then fall to 2016 and then growth again	ESOP types 1985-1993, 2000-14 EOT high growth from 2014	1980s and after 2000
Specific Industry structure	Broad spectrum Manufact. construction, services lately +knowledge-intensive PST	Broad spectrum: service 50%, manufacturing 13%, construction 11%, ITC 9%. Knowledge-intensive	Broad spectrum + knowledge-intensive
Size	Middle size and large	Middle size and large	Middle sized often with majority Large often<5% employee-owned
Support organizations	Integrated group with divisions and many support functions	Support organizations AEO and growing network of private consultants	Large network of support organizations, NCEO; AEO….. Network of private consultants
Model	+ ICA principles, interpretation	Partly ICA principles	Partly ICA principles
Legislation	Spanish law with specific Basque elements,+ internal rules	2014 law on EOT	1974 ERISA pension legislation With additions, especially 1998,
Right to control	One vote per member Some decisions on higher level in group structure Eroski: 50% consumer 50% empl	EOT-trustees are obliged to take care of employee interests Possible employee democracy or quite independent trust	EOT-trustees are obliged to take care of employee interests possible employee democracy or quite independent trust
Right to surplus	General Assembly decides 30-70% dividend to ind. accounts follow wages +regulated interest >20% to collective reserves a share to division and group	EOT gets contributions from company + share of dividends Possible bonus max £3.600 /year per employee, equal or adjusted for wage, tenure, hours	ESOP gets contributions and share of dividends and distribute on individual accounts: equal or in proportion to wages dividend: proportion to accounts
Right to wealth	Individual share high priority grow with dividends and interest Paid back at exit	Collective indivisible reserve. Only individual share of wealth if hybrid with employee shares	Accounts exchanged to shares Annual valuation of shares Exit: pay back within 6 years
External owner	Another coop may own a share of a cooperative in the group	EOT > 50% may leave room for minority shares to former owner	ESOP > 30%, former owner >50% Large listed firm ESOP often <3%
Entry/exit of employees	Large entry stake: 10-15.000 euro + 20% entry fee to coll. reserves Exit: pay back within 6 years	All employees included	All employees included After employed min. 1000 hours Exit: pay back within 6 years
Non-members	Some limitations = rest of Spain	All employees included	All employees included
Startups and takeovers	Incubator, R & D for new activities, start financing	EOT excellent for takeovers of successful firms, not for upstarts	ESOP excellent for takeovers of successful firms, not for upstarts
Financing	The high individual contributions + savings over time substantial Bank: *Laboral Kutxa*, diversified finance included group structure	Takeover: bank + vendor loans with collateral in company assets and future earnings	Takeover: bank + vendor loans With collateral in company assets and future earnings
Tax-advantages	Company tax 20% (normal 25%) but 5-10% to Education fund 50% deduction for investments into collective reserves Capital gains on individual accounts taxed as capital gains	10% point lower capital gains tax for former owner when EOT owns > 50% Tax-free bonus max 3.600 £/year per employee, equal or adjusted for wage, tenure, hours	For ESOP in C-corporation: Deduction of contributions and interest. Low or no CGT for former owner when ESOP >30% For ESOP in S-corporation no tax before paid out to employees
Wage-earner rights	Full status as wage earner M-Group has own social security	Full status as wage earner	Full status as wage earner
Risk	Job security within M-Group. Risk, if high individual account, but pension secure in *Lagun Aru*	No individual capital. Only if combined with individual employee shares in hybrid model	Possible diversification from 55 y. No contributions from wages, Risk of losing the extra savings

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