A Generic ESOP Employee Share Plan for Europe
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EMPLOYEE SHARE PLAN
FOR EUROPE

ABSTRACT

Employee share ownership in SMEs is microscopic in Europe while it is widespread in the USA. This difference is due to the implementation of a particular employee share plan in 1974 in the USA, the ESOP. It is still almost unknown in Europe, it is very different from what we know over here. However, it can be implemented in all European countries on the basis of existing legislation, by simply adapting it case by case in the finer points.

The purpose of this paper is to conceptualize a generic version of the ESOP model that, with some variations, could be implementable in all European countries.
Employee share ownership in SMEs is microscopic in Europe while it is widespread in the USA. This difference is due to the implementation of a particular employee share plan in 1974 in the USA, the ESOP. We can put in parallel the 14 million employee owners in companies under ESOPs in the USA and the figure of 1 to 1.5 million in SMEs in Europe. For employees, for companies, for well-being in general, this is very much lacking in Europe.

When the EFES wrote its "political roadmap for employee share ownership in Europe" in 2008, we put the introduction of the ESOP model in Europe among our priorities. Today, with the crisis due to the pandemic, the time has probably come to push it to the forefront. Indeed, many companies risk bankruptcy, public interventions are increasing, even nationalizations are back on the agenda. In this context, employee share ownership must be part of the panoply, it can be an important factor for the success of the turnaround.

The following proposal describes the characteristics of a generic European ESOP model. On this basis, a specific approach will have to be adopted in each European country according to its specific legal and tax aspects.

The authors are David Ellerman, a former World Bank economist and an American living in Slovenia today, one of the few people recognized worldwide for their expertise about employee share ownership, - and Tej Gonza, President of the Institute for Economic Democracy, Ljubljana, Slovenia.

The proposal first describes the American ESOP model as it could be implemented in Europe as well. In this version, it is a pension plan, therefore a long-term employee share ownership plan. This also provides him with a very clever financing model, based on an original tax scheme. These characteristics are probably those which allow this ESOP model to surpass all other employee share ownership formulas in SMEs.

However, particular obstacles could appear in Europe. Hence two variants proposed compared to the American ESOP model:

- In the Coop-ESOP, the legal vehicle for the plan could be a workers cooperative rather than a trust. Authors of the proposal are fervent promoters of the "one-person-one-vote" principle; others may prefer the "one-share-one-vote" rule.
- Instead of a pension plan as it is the case in the USA, it could be a "rollover" plan.

In addition, we highlight how the ESOP model can help Europe to tackle the corona crisis:

ANNEX 1 reproduces the EFES' Appeal to all European governments and institutions - Employee share ownership in times of pandemic of April 2020.

ANNEX 2 reproduces the EFES' Proposal of May 2020: Employee share ownership against the crisis - An employee share ownership fund to help companies.

This publication is available in several languages, including French, German, Italian and Spanish.

MARC MATHIEU
**Employee Stock Ownership Plans:**
**A Generic Model for Any Country**

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**References**

**Abstract**

The theory behind a leveraged buyout is that one firm, such as a private equity firm, takes out a loan (or uses seller credit) to buy a company, and then restructures the company so that the cashflows and eventual sale of the company will pay off the loan with a profit left over. The American Employee Stock Ownership Plan or ESOP is a leveraged buyout mechanism so that the employees in a company can, in effect, do a leveraged buyout of part or eventually all of their own company. This innovative way to set up broad-based employee ownership has by any standards been a success; started 40 years ago, now 14 million employees or 10% of the private US workforce work in ESOPs. There are four key characteristics to a successful employee ownership, which are illustrated through ESOPs:

- Inclusivity (all employees are included).
- Financial accessibility (employees should not sacrifice their personal savings, wages, or take out personal loans).
- Sustainability (a system is in place that guarantees that the ownership maintains with currently employees).
- Ownership culture (educational programs are implemented that teach responsibilities and rights of ownership to employees, that teach workers basic financial literacy, and provide managers with the tools for effective participatory leadership).

The purpose of this paper is to conceptualize a generic version of the ESOP model that, with some variations, should be implementable in any private property market economy.
1. **Introduction**

The long-lasting success of the American Employee Stock Ownership Plans (ESOPs) in terms of their business performances, responsibility towards workers, and local communities, and in terms of sheer prevalence numbers makes us believe that they are a very important socio-economic invention that deserves more recognition outside the US. In particular, we think that the European economy is in dire need of a similar model that would enable inclusive and financially accessible employee buyouts. This paper presents a model for an ESOP-like fund or trust that could be used in most any country without waiting for special legislation.

To understand the model, we need to be explicit about two legal philosophies:

- The liberal-market philosophy: Everything is permitted that is not explicitly prohibited.
- The illiberal-communist philosophy: Everything is prohibited that is not explicitly permitted.

Since countries outside the US will likely not have explicit ESOP legislation, this generic ESOP model is based on the liberal legal philosophy; develop a model that does not violate any statutes of the host country. The liberal legal philosophy does not expect every new (non-prohibited) use of existing legal institutions to be explicitly permitted—since the point is to develop a new social institution. After some demonstration projects, then special legislation might be passed in a country to add explicit authorization (insofar as that is desired) and tax incentives for the use of this or other ESOP-like mechanisms.

This paper is structured as follows: In the second section, we outline and explain what social problems are addressed by the broad-based employee ownership, which provides a rational for government to follow a policy promoting employee ownership. In the third section we explain the American ESOP and the rationale behind the separate legal ownership vehicle. In the fourth section we propose that a generic ESOP can be constructed using different forms of legal entities, including a cooperative, a trust, and a capital-based enterprise. We propose two deviations from the American ESOP – the Rollover system (a systematic share-purchase mechanism) and changes in governance rights in the direction of greater employee participation.

2. **What problems does broad-based employee ownership address?**

A model that allows for employee buy-ins of the existing companies without workers having to sacrifice their own savings has many positive social and economic outcomes. In this section, we describe some arguments for political and social action in direction of establishing ESOP-like employee ownership model in Europe.

1. Family-owned small-and-medium-sized enterprises do not have serious problems of corporate social responsibility for a very good reason—everyone has a natural incentive not to “foul their own nest.” The founding family typically lives in the community containing the enterprise and has a tradition of respect for creating jobs, paying taxes, and otherwise supporting the local community. Locally-held companies are known for responsible business operation. But founders pass on. The *succession problem* is that the children may have little interest in running the family business, so it may be sold to a competitor or to a larger industrial or financial conglomerate (Duh 2012; Malinen 2001; Hnátek 2013). In any case, the firm then becomes absentee-owned, and the new owners have a very different set of incentives than commitment to the local community. The enterprise may continue to operate for a time while the customers are switched to other facilities, while the value of the assets is “milked out”

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1 At the same time, we encourage local and national initiatives that would work on legislative proposals to institutionalize the generic ESOP and provide tax incentives on different levels, to incentivize different stakeholders in adopting the model.
by not undertaking replacement investments, and with less attention to costly pollution controls. Eventually the enterprise is closed—citing high labor costs and increased competition from cheaper foreign or domestic labor—with a concomitant adverse effect on the local community.

2. Selling a company to competitors or other outside the local community may result in the firm being eventually shut down with the loss of jobs and taxes in the local community. This is the problem of anchoring the capital in the community.

3. A problem for larger firms arises because of foreign or even absentee domestic ownership. In theory, foreign and other absentee owners could bring new capital and expertise to help companies thrive. And sometimes they do. But there are many cases that exactly the opposite is true. The foreign or absentee owners have no special commitment to the country or the local community; they are in it for the money. The decapitalization problem is that capital can be withdrawn from the company by not making new or even replacement investments and through a variety of schemes such as sale-and-lease-back transactions for the company’s fixed assets and intellectual property. Why should anyone be surprised when the foreign owners follow their own incentives? When you sell the chicken coop to a fox, do you blame the fox’s hunger for the result?

4. Many of the countries in South-East and Eastern Europe face a youth out-migration problem. Many young people, including those with families and school-age children, do not see a good future for themselves or their children in their native country.

5. There is also the disenfranchisement and political alienation problem resulting from the neoliberal forms of post-socialist transition that abolished people’s social rights (education, job, healthcare, housing) without establishing any corresponding private version of those rights. Outside the elite beneficiaries of those programs (e.g., the new oligarchs or tycoons), many people lost their sense of agency that they could control their own life prospects and those of their children.

6. The recent crisis showed the fragility of the economy. It also showed that the most fragile part of the economy are the workers in risk of losing jobs and falling into the condition of financial insecurity or even poverty.

7. European Commission reports that the current levels of economic inequality are unjust, unsustainable, and inefficient even in one of the most egalitarian economic regions in the world (Colonna 2018).

There is a way to address and partially answer these various problems. There is a group of people who have a natural self-interest in the long-term success of the company, in the local environment where an enterprise is situated, and in the local population; these people are the (current) employees of the enterprise. There are around 7000 cases in the US, which prove that employees, when sufficiently educated and informed on the rights and responsibilities of ownership, turn out to be responsible and efficient owners. We show how this alternative can readily be adapted to other private property market economies.

Objections arise immediately; the employees usually do not have the money to buy out the family owners and they are well-advised not to risk their own savings and mortgage their own homes on such a venture. These objections are well-taken. The 7000 firms with partial or whole employee ownership did not arise from employees risking their own private savings or assets. They arose from a legal mechanism, the Employee Stock Ownership Plan (ESOP), which allows a partial or 100% employee “leveraged buyout,” while avoiding the problem of employees risking their own savings and assets.

The ESOP mechanism directly addresses the different problems considered above.

1. The succession problem of family ownership is solved by ESOP mechanism that sells the company to the employees over a period of years (Frisch 2002; Brill 2017;

Flesher 1994). Most of the 7000 ESOPs in America arose as solutions to succession problems.

2. By selling to the employees, the capital, jobs, and taxes are anchored in the local community. A sustainable form of employee ownership anchors the local interest with the ownership interest and achieves more socially and environmentally responsible business operation (Denton 1999; Stranahan and Kelly 2019; Fifty by Fifty 2019; Gehman, Grimes, and Cao 2019).

3. The decapitalization problem for larger foreign or absentee owned firms can be addressed by setting up a 20%-30% ESOP or whatever percent of ownership is enough to gain a seat on the Management Board. Then the employee representative can monitor and sound the alarm about decisions that jeopardize the future of the company.

4. The youth out-migration problem is directly addressed by having an ownership stake in the company in addition to a job. Both would be lost if the employee chooses to emigrate. In a former Yugoslav company, the management recently wanted to bring the younger and well-educated workers into ownership and asked them what they thought of the plan. Many of the workers surprisingly responded that they didn’t want it. When asked why, they explained that they wanted to keep their options open about future out-migration from the country.

5. The disenfranchisement and political alienation problem refers largely to the older workers whose social rights under socialism were eliminated in the post-socialist transition without any corresponding empowerment through private property rights. Establishing some private ownership of their workplace would help to re-establish these people’s sense of agency, control, and dignity in their lives in addition to fostering the development of democratic character by discussing and participating in workplace decisions.

6. Broad-based ownership provides higher resilience in times of crisis and greater productivity of an enterprise. Research studies comparing employee-owned companies with conventional companies concluded that the former have 20% to 50% higher survival rates on the markets, while the difference is emphasized in times of crisis (Blair, Kruse, and Blasi 2000; Blasi, Kruse, and Weltmann 2013; Kruse 2016). A study from 2012 found that workers in the ESOP companies are 50 percent less likely to voluntarily seek employment in the next year (Kruse, Blasi, and Freeman 2012). During the previous crisis, employee-owned companies in the USA had between 20% and 50% lower lay-off rates, and it is estimated that during the Great Recession, US Government saved around $13 billion in unemployment and other program costs because of employee ownership (NCEO 2019). Similar results are found outside the USA. Mondragon companies were very successful in bridging the 2009 crisis. While Spanish unemployment rose to 26%, Mondragon collectively decreased wages from 5% to 10% and allocate few redundant members among cooperatives (Tremllett 2013).

7. Decentralizing ownership is a very efficient and effective way of pre-distributing wealth without counting on government redistribution. Inequality is a pertinent problem that most governments around the world are trying to address. By democratizing the source of income and wealth – capital -, employee ownership addresses this issue without imposing redistributive measures. Recent research from the US shows the average wealth or savings of low- and middle-income employees is $17,000 in conventional companies, and $165,000 in employee owned companies (Blasi and Kruse 2019).

THE SOCIAL CONTRACT BETWEEN THE COMPANY AND THE ESOP

The rationale behind an ESOP can be summarized in a broader ‘social contract’ between the Company and the ESOP. This ‘contract’ contains both broader social components and
It is clear that not all the benefits of an ESOP are monetized by the seller. If the seller or seller’s heirs put the premium on the selling price ignoring all the external negative effects on the employees and local community, they may prefer to sell to a competitor or a private equity firm at a higher money price. In the 40 years of US experience with ESOPs, if an ESOP is coupled together with internal changes appropriate for employees as owners such as (i) financial education programs, (ii) consultative mechanisms, (iii) more decentralized decision-making, and (iv) an ownership culture, then there is a significant increase in productivity, and this is shown in study after study (see Kruse 2002; Kruse et al. 2010; Blasi et al. 2013; Bernstein 2016; O’Boyle et al. 2016; National Center 2017; Blasi and Kruse 2019).

Hence a monthly contribution from the Company to the ESOP can start a self-reinforcing virtuous cycle. The contribution makes the employees into owners, and that ownership plus the development of the components of an ownership culture will increase productivity. Addressing the seven social and practical problems previously mentioned plus the productivity implications are all important components in the “social contract” between the Company and the employee-members of the ESOP. The whole ESOP arrangement benefits the sellers (solving the succession problem), any other external shareholders (higher profitability, greater employee organizational affiliation), and the local community (anchoring the jobs and taxes in the community, reducing inequality, improving local responsibility) in addition to benefiting the employees, so it is not exclusively a benefit to employees or to sellers.

3. WHAT IS AN AMERICAN ESOP?

It is firstly important to say what an ESOP is not. The acronym “ESOP” is often used outside the US to denote any form of employee ownership no matter how it was established. In particular, an ESOP is quite different from the relatively common Employee Share Purchase Plans (ESPPs) where employees set aside a portion of their wages and salaries on an individual basis to purchase shares at a discounted price. These plans are mostly available to already well-paid engineers and managers to keep them with the company. Consequently, such plans rarely amount to a significant percentage of corporate ownership. The slow increase in employee shares through an ESPP seems to have little effect on either employee or management perceptions or incentives or on the corporate culture. In contrast, the ESOP leveraged buyout involves a loan or sellers’ credit to buy a significant amount of ownership at one time, although the employees only gain individualized ownership of the shares as the loan to a private debtor or a seller is paid off over a period of years.

Clearly an Employee Stock Ownership Plan is also quite different from an Employee Stock “Options” Plan (sometimes also called an “ESOP” outside the US) since options plans only give any “ownership” for a few seconds when the options are cashed in. The key to true ESOP is employee ownership that is broad-based, that is it includes all permanent employees, that is financially accessible, and that systematically includes ongoing employees in the ownership, not allowing external investors or retired employee-owners to keep a hold on shares.

The key to the ESOP leveraged transaction is an Employee Stock Ownership Trust (ESOT) separate from the Company with the employees of the Company as the beneficiaries of the trust; indeed, it is a special type of private pension trust in the US.

The Company approaches a bank or other financial institution to take out a loan through the ESOP guaranteed by the Company (Step 1 & 2 in Figure 1) to buy shares (Step 3) from the exiting owner (e.g., the family or corporate owner) or to buy newly issued shares.

The purchased shares (Step 4) are initially held in a special ‘suspense account’ in the trust and they will be forfeited if the loan payments are not made. But banks and financial institutions do not want to hold shares in a privately held Company, so the real security is that the Company commits to make the loan payments (as in an ordinary loan) except that the ‘loan payments’ leave the Company as pension contributions to the ESOT (Step 5 in Figure 2).
which are then passed through to the lender (Step 6). This creates a significant tax advantage for the Company since the whole pension contribution is deducted from taxable income as deferred labor compensation—whereas ordinarily only the interest portion of the loan payment is deductible. And then as the loan is paid off, the shares, equal in value to each loan payment, are distributed (Step 7) from the suspense account to the individual employee share accounts in the trust in proportion to their compensation.

When the employees retire or otherwise leave the Company, the ESOT repurchases their shares over a period of time (Step 8), and the repurchased shares are reallocated to the individual accounts of the employees still with the Company. Unless the Company is a publicly traded Company, the Company is obligated to repurchase the shares of the exiting employees since there is no external public market. That repurchase liability of the Company can be financed out of current earnings transferred to the ESOP as a pension contribution or by another loan paid off in the same manner. In that manner, the employee ownership is
stabilized over time\textsuperscript{3}.

\subsection*{3.1 Legislative History of ESOPs}

In an ordinary American private pension fund associated with a company, the pension contributions would be used to buy other shares or securities with at most 10\% allowed to be invested in employer securities. Hence the legislative route to create the ESOP mechanism was to ‘carve out’ the ESOP as a special type of pension trust that was different in two respects: 1) it was required to invest “primarily” in employer shares, and 2) it could be leveraged, i.e., could take out a loan, guaranteed by the company, to buy shares for the trust.

Since ESOPs were supported by both parties in the US Congress, ESOPs were given a number of special tax advantages—some of which have been modified in the course of time.

- The contribution of the company to the ESOP is a deductible expense for the company—which means that when the company pays off an ESOP loan, both the interest and principal portion of the loan payment leave the company as a deductible expense (ordinarily only the interest portion is an expense).
- No payroll or social security taxes are paid on the company’s contribution to the ESOP.
- The income to the ESOP from the company is not taxable income.
- When an owner sells shares to an ESOP and rolls over the income into another long-term investment, then the capital gains tax is deferred until the other investment is liquidated.
- When a bank makes a loan, the interest on the loan is ordinarily taxable income to the bank, but when the loan is to an ESOP, then the tax on the interest payments is at a reduced rate.

Some of these tax breaks were focused on overcoming the barriers of banks to making loans to this new type of entity, but once ESOPs were well established, some tax advantages were reduced.

The original idea of the ESOP mechanism was due to a San Francisco lawyer, Louis Kelso. Although Kelso’s motivation cannot be traced to one factor, his early writings cite the now familiar threat that “the robots are coming to steal your jobs,” Kelso feared that automation would throw so many people out of work that society could only be stabilized if most people had a capital income in addition to their labor income. Kelso also made the point that if capitalism was such a good thing, then it needed to create more capitalists—particularly in light of the then communist alternative [Kelso and Adler, 1958]. Hence the ESOP mechanism was portrayed as “turning workers into capitalists,” [Kelso and Hetter, 1967]. This particular ‘framing’ of the ESOP idea accounts for much of the conservative support for ESOPs in America.

Normally, business transactions between a company and its pension plan are prohibited. In the 1950s, Kelso had experimented with ESOP-like mechanisms in California and had to get private rulings to allow such transactions. A fateful meeting in 1974 between Kelso and Senator Russell Long, the Chair of the Senate Finance Committee, changed all that. Russell Long was the son of the well-known Louisiana populist governor, Huey P. Long. He saw in the ESOP idea a chance to further his father’s “Share Our Wealth” ideas, so the special ESOP category of pension plan was carved out in the Employee Retirement Income Security Act (ERISA) of 1974 which allowed transactions between an ESOT and the employer to implement the ESOP leveraged employee buyout mechanism. It took almost another decade for additional regulatory hurdles to be cleared away, for additional tax incentives to be added, and for the ESOP business succession option to become widely known, so that the real growth in ESOPs dates from the early 1980s\textsuperscript{4}.

\textsuperscript{3} For more information, see the literature of the National Center for Employee Ownership such as: Gordy et al. 2013 or Rosen and Rodrick 2014.

\textsuperscript{4} For general background, see Blasi et al. 2013.
It is particularly interesting that the ESOP legislation and amendments over the years has been supported both from the Right (“turning workers into capitalists”) and from the Left (“moving towards the old idea of workplace democracy”). Now around 10% of the private workforce (around 14 million workers) work in the 7000 companies with ESOPs, while, in comparison, only about 7% of the private workforce is unionized. Major U.S. based accounting and financial firms have departments devoted to ESOPs in addition to many smaller ‘boutique’ firms specializing in ESOP transactions. There is a national information clearing-house and research organization, the National Center for Employee Ownership, and there are two national ESOP associations in addition to many state-wide ESOP associations. All these associations and centers hold conferences throughout the year to share experience and reward emerging best practices. Semi-annual conferences of academics devoted to researching and documenting employee ownership in America are sponsored by the Rutgers University Institute for Employee Ownership and Profit Sharing.

Our point is simple. If all this can happen in less than forty years in the most labor-hostile industrialized country, there is no reason why it can’t happen on even a larger scale in the other industrialized democracies. That would have a concomitant impact on addressing the seven problems listed above in addition to:

- improving the income and wealth distribution in a direct pre-distributive manner that can be supported by the Right and Left—as opposed to after-the-fact redistributive policies;
- improving productivity normally promoted by trying to get employees to “act like owners” whereas in an ESOP, they are owners;
- community stabilization by avoiding absentee ownership in the business succession of local firms; and
- overall improvement in corporate social responsibility by aligning the incentives of the owners and the local social concerns.

### 3.2 Reasons for the ESOP as an External Ownership Vehicle

In a conventional corporation, where the owners want to bring all employees into some ownership or where employees already own a sizable amount of the equity shares, it is desirable to set up an ESOP as an external legal vehicle to organize and to “permanently” perpetuate the ownership by employees. The ESOP systematizes the employee ownership so that when an employee shareholder retires or otherwise leaves the company (if not sooner in the Rollover Plan), the ESOP will buy back the shares which will then be automatically redistributed to the ownership accounts in the ESOP of all the current employees who are the members/beneficiaries of the ESOP. In that manner, the ownership of the shares by the employees is sustained instead of slowly leaking to outsiders who might eventually take over or sell the company. The ESOP trust thus creates an internal market for shares that maintains the shares with employees, buying the shares from old accounts, and distributing to the new accounts at the trust.

Without a separate ESOP trust-like entity, the only way to sustain employee ownership when an employee-owner retires or leaves is to have the company directly buy back the shares or to have the shares individually purchased by active employees. But new employees cannot afford to individually buy the shares of a retiring employee-owner. And if the company buys back the shares (which are then retired to the company treasury) and does not contribute...
them to an employee trust, then only the existing shareholders benefit since they then own a larger percentage of the company—but it was all the current workers who produced the company income to buy back those shares. It is only with an external trust-like entity that all the existing employees will benefit in their ownership accounts of the trust by the repurchase of outstanding shares from retiring employee owners or from other shareholders. In what follows, we will assume that the Company is a joint stock company, but the same ideas work for a limited liability company (LLC) where there are ownership percentages instead of ownership shares.

In the United States, a special legal category of a retirement trust was created for this sort of employee ownership vehicle. Since retirement trusts normally can hold only a small percent of their assets in employer stock, special legislation was required to “carve out” a special Employee Stock Ownership Trust that could hold 100% of its assets in employer stock. But corporations in other countries might also want to set up a similar ESOP where there is not as yet any special legislation.

In the following sections we describe different possibilities for setting up generic ESOP-like legal entities that serve the function of ESOPs even without any special legislation in place (but possibly without all the tax advantages of the specially-legislated ESOP).

4. The generic ESOP

The idea is to find a special legal vehicle that would function as the ESOP trust-like entity, and organize that vehicle with internal laws so that it mimics the main financial and internal structures of the American ESOP.

We propose that, similarly to the American ESOP, all the permanent employees of the Company (not temporary or seasonal workers) are members of the ownership vehicle.

There might be a probationary period for each new employee of the Company. The founders of the generic ESOP need to decide if there should be a significant membership fee (e.g., as a standard percent of salary) to be paid to the ESOP over a period of time (e.g., a year) by payroll deductions or not. This should serve to increase “psychological ownership” but it is important that all qualifying employees be members—since the goal is to create a company of owners (not a company divided between owners and employees).

4.1 Types of Legal Vehicles for generic ESOPs

Since all countries should have some form of legislation for worker cooperatives, one suggestion is for a new type of worker cooperative to serve as an employee stock ownership trust for a conventional joint stock Company (or limited liability Company). A new type of cooperative does not require that a law defines this new type, but that functionally defined internal laws of the cooperative allow the cooperative to function as an employee ownership trust with individual capital accounts. In this manner, the employee portion of the ownership of a Company can be stabilized and increased prior to special legislation. A Coop-ESOP would have a built-in governance structure so the members would start to be involved as (indirect) owners of part of the Company employing them. There are a couple of reasons why we see worker cooperative as the most “fit” legal entity for the generic ESOP model:

- Cooperatives have a long and strong tradition in Europe.
- Cooperatives are, by conceptual construct, democratic organizations based on ‘one-person-one-vote’ governance structures. The US experience shows superior performance of more participative ESOPs in relation to non-participative ESOPs (Pierce and Rodgers 2004; Winther and Maren 1997; Mayhew et al. 2007).
- Cooperatives are membership institutions and allow for simple membership coordination.
- Cooperatives with internal capital accounts (Mondragon style) are, in our opinion, an ethically ideal form of business organization. If a 100% of shares comes to a cooperative,
the cooperative may become the operating entity (instead of maintaining two separate legal entities).

- Certain national cooperative legislations prevent the sell-out of the cooperative and reimbursing the members above the mandatory shares; this can be useful if one would want to set up a durable and long-term employee ownership (obviously, in a private property market economy “nothing” can really be safeguarded against the sale-out – every cooperative can restructure into a LLC or joint stock company, and is sold as such).

Another possibility would be a specially designed foundation or ‘stiftung’. For the eventual development of an ownership culture in the company, it is important that the employees participate in not only selecting the management of the ESOP but also in determining how the ESOP shares are voted in all decisions put to the shareholders. The governance structure is built-in if the ESOP is a special type of cooperative and could probably be provided for in the constitution of a foundation.

If a limited liability company was to serve as the ESOP vehicle, then the question of its ownership would immediately arise. LLC is not a membership institution, which presents additional problems; since a limited liability company would have to be re-registered every time an employee comes or goes, it would be too costly and unwieldy.

Perhaps an ESOP could be organized as a joint stock holding company to hold a certain percent of the ownership in the underlying Company. Its shares could be fixed-value (e.g., one euro) stock limited to the employees of the Company that would be issued or redeemed as eligible employees come and go from the Company. The internal individual accounts in the holding company would hold the Company shares allocated to each employee-member that would sooner or later be ‘bought back’ by the holding company ESOP.

And finally, in countries with standard legislation for private pension funds, ESOPs could be established by following the American legislative history of carving out a special type of pension fund that could be 100% invested in Company stock. Our concern here is that the program would not be viewed as an employee ownership program, but rather as a complementary pension scheme. The misconception alone presents a variety of problems (workers as beneficiaries not members etc.), but also the pay-out structure is not ideal (as in the US ESOP, the money on individual capital accounts can only be paid out upon leaving the company, which introduces a number of incentive and risk distribution problems). The alternative to a generic ESOP as a pension plan is described in the section The Rollover Plan. The main problems in keeping employee ownership as a pension plan are:

- Workers being only beneficiaries without governing rights.
- Unequal risk distribution between older and younger employees (older capital accounts much “heavier”).
- Incentive to leave the company or sell the shares collectively to “see the money” when people need to finance cars, houses or flats, college education, and the like.
- Stochastic expenses for the company (if a number of employees suddenly decide to leave the company or retires, this introduces a significant and often unpredictable cost for the underlying company that has to pay out the value of capital accounts).

The authors favor using a special type of cooperative, an Employee Owners Cooperative, as the legal vehicle so we will focus on that option which we are using in pilot projects and legislative attempts in Slovenia. However, all our remarks may be easily adapted to other types of legal vehicles for the ESOP.

4.2 The Contribution from the Company to the Generic ESOP

There are several options to structure the contribution from the Company to the ESOP;

1. As a deductible (or post-tax) contribution—if legally allowed—made for all the reasons in the “social contract” between the Company and the ESOP;
2. As a temporary loan to be written off in the future when ESOP legislation is passed, or
3. As a contribution of treasury shares that were repurchased by the Company from existing shareholders; and
4. As member voluntary contributions by the company to the cooperative in the form of cash (purchase of voluntary cooperative shares).

The best option will depend on local legislation that may not allow certain types of transactions until new legislation explicitly permits those transactions.

In the US ESOP, the ESOP contributions are not paid to the employees individually but to the legal entity of the ESOP trust so there are no payroll taxes paid on those contributions. In a similar manner for this generic model, the ESOP contributions are not paid to the employees individually but to the separate vehicle for their employee ownership, the ESOP, so there should similarly be no payroll taxes on those contributions. Moreover, in the US ESOP, the ESOP contributions are treated as a deductible expenses so no corporate taxes are paid on them. In a country using this generic ESOP model, new legislation may be needed to guarantee that the ESOP contributions are a deductible expense. That may depend on the case. In pilot projects prior to new authorizing legislation, the contributions may have to come out of post-corporate tax net income or use options 2, 3, or 4 above.

The initial set of shares in the ESOP could be financed by sellers in exchange for a Note Payable from the ESOP, from the Company, or by a Loan Payable from an outside financier passed through to buy the shares.

The shares in the ESOP are initially not assigned to individual capital accounts so the shares are credited to a “suspense account.” As the ESOP contributions are paid from the Company to the Coop-ESOP, then the money is passed through to pay down the Notes or the Loan, and an equal-valued amount of shares (after the co-ops’ expenses) are credited to the individual capital accounts of the employees (usually in proportion to their wage-ratios).

With seller credit, the seller of shares transfers a sizable number of shares to the Company in return for a Note Payable (in the case of seller financing). There is then the choice to contribute the shares to the ESOP only as the Note payments are made or all at once in the beginning. If the shares are only contributed when the Note payments are made, the contributed shares should be equal in value to the principal portion of the payment and they are directly credited to the members individual capital accounts (in proportion to their share of total member payroll). If the shares are contributed to the ESOP all in the beginning, they are first deposited in the suspense account. Then as each Note payment is made, shares are transferred from the suspense account to the individual capital accounts (typically in proportion to each member’s salary out of the total payroll of the members).

**An Example**

Let’s suppose the initial goal is to transfer 20% of the ownership to the ESOP when the ESOP arrangement is first established. The initial transaction could be financed by:

(a) an external loan directly to the ESOP (to be paid down by the monthly contributions), or
(b) an external loan or line of credit to the Company and then the Company loans the money on to the ESOP.

In either case, the ESOP purchases 20% of the corporate shares or 20% of the LLC ownership from the owners. In the more likely case where external credit is not available, then the transaction needs to be seller-financed:

(c) the seller transfers 20% of the ownership to the ESOP in return for a Note Payable from ESOP (Steps 2 & 3 in Figure 3) to be paid off with specified monthly ESOP contributions. Since external credit may not be initially available, we will focus here on seller financing and a Note Payable from the ESOP to the seller—where the other options are treated\footnote{mutatis mutandis}. When the seller stock transfer is agreed upon, the Company agrees (Step 1 Figure 3) to make monthly Note payments from the Company to the ESOP which are passed through to pay off the seller over a period of years. Financial analysis is required to see that the
numbers match up, i.e., that the monthly Note payments are sufficient to pay off the seller’s shares (at their given valuation) over the given period of years. As that debt is paid off, the proportionate amount of the ownership is transferred into the members individual capital accounts.

Since the ESOP can vote those shares, this would provide the employee-members with some significant change in the beginning such as a seat on the Board of Directors or on the Supervisory Board (assuming a two-tiered board system). Only when the value is eventually paid out to the worker-member natural persons are there individual tax liabilities.

Figure 3. Initial purchase of shares by ESOP guaranteed by the Company

4.3 The Individual Capital Accounts in a Generic ESOP

Each member in the ESOP is to have an individual capital account which would have credits in the form of Company shares (or ownership percentages). The shares “in” a member’s account are held in trust for the member; they may not be sold or mortgaged by the member as if they were separate individual property. Eventually, the shares will be “repurchased” by the ESOP and then redistributed to the current members, so the ESOP arrangement is an ownership-lock to anchor ownership in the local community.

In the example, as the Note to the seller is paid off (Step 5 in Figure 4) by the Company’s ESOP Contributions (Step 4), shares equal in value to the principal portion of the Note payment should be transferred from the suspense account to the individual capital accounts, e.g., in proportion to the member’s share in total member payroll (Step 6).

Figure 4: Individualizing shares as Note is paid off
When a member retires or otherwise leaves the Company, then the individual account is closed to new credits, and the Company is then obliged to buy back the shares credited to the account (Step 7 and 8 in Figure 5) over a fixed period of time as established in the by-laws of the Coop-ESOP.

These diagrams illustrate the example where the ESOP buys the original shares from the seller and repurchases shares from exiting members (Step 9). When legislation is passed to regularize the ESOP arrangement, the goal is that the Company would be making cash contributions to the ESOP (that are tax-deductible and without any payroll taxes as in the US ESOP) and then all the shares transactions would be similarly carried out by the ESOP.

When an employee-member wants a “special payout” due to some family emergency or special need, that should be handled—if at all—by special loans from the Company paid back out of payrolls deductions, not by breaking the rules on paying out ESOP accounts. If an employee-owner retires or exits the Company with such special debt unpaid, then any payout from their internal capital account would be redirected to pay off that debt to the Company first.

In addition to the individual capital accounts, there is a “suspense account” to keep track of shares initially obtained with seller credit or some outside loan used to purchase shares from an existing owner. The idea is that the shares should only be individually allocated to the employee-members who earn them by generating the income and cashflow for the ESOP contribution, not to the employees who happen to be with the Company when the loan or credit arrangement was made. Hence the credit-purchased shares would be held in the suspense account and would only be individuated to the individual accounts as the note to the seller is paid off.

In the American ESOP, it is required by law that the shares (in a Company that are not publicly traded) are valued each year by an independent certified valuator. In an ESOP arrangement, there needs to be some similar valuation or at least a rule by which a share’s value is determined that is not subject to individual negotiations, e.g., a fixed percent of book-value per share, and that has some resemblance of fairness to both buyer and seller. If the rule was a fixed percentage of book-value per share, then the book-value (not the fixed percent) would be determined at the end of each accounting year and be fixed for transactions during the coming year.

When an ESOP is originally set up, there might be existing or retired employees who individually own shares in addition to the shares of, say, the retiring or exiting majority owner.
The still-working employee shareholders and the retired employee shareholders should be strongly encouraged to put their shares (or percentages) into the ESOP as in the example above in return for Notes Payable as if they were an exiting owner.

In summary, the Company and the ESOP enter into an agreement wherein the Company transfers the standard agreed ESOP contribution to the ESOP each month. The cash is used to cover the co-op’s expenses, to finance the purchase of shares from existing shareholders, and for financing the share repurchases in the ESOP.

4.4 Two central changes to the American ESOP

The Rollover Plan

It is an unnecessary artifact of the way the ESOP was implemented in the US that a retirement plan was used as the employee ownership vehicle. Hence, aside from dividends on the shares, the employee-owners have to leave the Company or retire to see any of their ownership as cash. The basic idea in the Rollover Plan is for the ESOP to repurchase shares in a member’s ownership account after the shares have been there a fixed number of years, say five years—or simply to buy back the oldest shares, on a “first in, first out” (FIFO) basis. Such payouts assume no conflict with the ESOP paying off its Note or Loan Payable which have priority in being paid off. There are dates attached to each entry of shares credited to a member’s account. In this manner, the employee shareholders do not have to wait until retirement to see some cash for their shares.

In an ordinary private firm, the owners would not just pay themselves a salary (assuming they work in the firm) and then wait until retirement to receive the rewards of ownership. The rollover plan similarly allows employee-owners to start receiving these rewards prior to retirement or exiting the firm. In American agricultural cooperatives, the same sort of rollover plan or “revolving equity fund” has been used for many decades.

7 “The revolving fund plan redeems allocated equity based on the age of the equity (the year the equity was retained), using a first-in, first-out order. The most common method redeems only one year of retained equity each year. Thus, members’ money withheld in 1995 might be repaid in 2000, that of 1996 redeemed in 2001, and so on”. (Zeuli and Cropp 2004, p. 63)

Figure 6. Illustration of rollover plan (assuming equal payroll of older and younger worker)

The matured shares, like any shares paid for by the ESOP, are paid for out of the contributions from the Company, and thus those shares would be redistributed to the current employee-member accounts according to their part of the current payroll. In this manner, the
rollover plan automatically reduces the number of shares in the older workers’ accounts and builds up the shares in the smaller accounts of the younger employees. Then the older workers are not carrying so much of the risk and can diversity their assets without retiring. In this manner, the younger worker-members are slowly buying out the Company from the older workers—even before the older workers retire. Eventually each employee-owner would have two streams of income: direct salary/wages and the redemption of the longest-held or oldest shares. The rollover plan also takes away the stochastic aspect of how retirement affects cash-flow. The Company knows well ahead of time when the shares are maturing in the rollover plan, so the monthly contributions can be adjusted accordingly to fund the cash-flow.

In summary, the benefits of the rollover scheme are:

- the workers “see some money” way before retirement to avoid the temptation, like in recent US case of New Belgium Brewery, to sell out in order to finance a new car, house, college education, etc. since the shares in the member accounts cannot be used as collateral for bank loans;
- the rollover does not let huge accounts and risk-bearing to accumulate for the older workers who may be tempted to retire early or to start a stampede of workers retiring to get their money, e.g., if they think the Company could not pay out all the large accounts for the founding cohort as they get older;
- the rollover constantly tends to equalize the account balances between the older and younger workers (as indicated in the diagram);
- the rollover solves the diversification problem since after X = 5 years the workers are getting their older tranches paid out so they can diversify their wealth—which in the US ESOP only starts at age 55 or retirement or exit;
- the rollover regularizes the cashflow requirement so the wage bill is adjusted downward enough so that the tranche buyouts can be financed which the company knows about 5 years ahead of time;
- eventually, after 5 years, all employees will be seeing two cashflows, their wages/salaries and their buyouts of their matured shares, except for the new employees who during their first 5 years will be receiving the relatively lower cash wages while they are building up equity in their member accounts—just like any ordinary employees who, say, are having mortgage payments on a flat taken out of their cash wages; and finally
- when workers exit or retire, there is no stochastic impact on cashflow; their accounts are closed to new credits and their shares all mature within the five years as they are all paid off—so all the tendencies to retire in a stampede to get one’s money are cancelled since they get their money five years after each tranche whether they are still working in the Company or not.

Governance: Employees as Members, not ‘Beneficiaries’

It is another artifact of the US version of the ESOP that it uses a trust mechanism. Trusts are ordinarily used for “beneficiaries” who, for whatever reason (e.g., being minors), are not ‘trusted’ with direct control. The worker cooperative as ownership-vehicle also has a board of directors which would be elected by the members on a one-member/one-vote basis (independent of the size of a member’s individual capital account). The worker cooperative would also have a part-time manager and secretary-treasurer selected by its board to carry out its affairs such as managing the whole member account system.

The worker cooperative board, as the deciding body of the ESOP, decides how to vote all the Company shares that are its assets as a block. Indeed, in the most democratic version, there might be a vote by the worker-members, on a one-member/one-vote basis, to instruct the board about how to vote the shares as a block in decisions put to the shareholders.

Since the only “business” of the worker cooperative is the ESOP system, there needs to be an overall agreement with the Company on its operation—which is particularly important when
the Coop-ESOP only holds a minority of the shares. That agreement would set out the framework for the operation of the Company (e.g., the contributions from the Company to the Coop-ESOP) and the worker cooperative as the Coop-ESOP for the employees of the Company.

5. **Conclusion**

The generic ESOP model presents a new model for employee buyouts of existing companies that should be implementable in any private property market economy without any special legislation (but also without any special tax advantages until such legislation is passed). The model captures the key features of the American ESOP as a remarkable social invention:

- It brings *all* the employees of the Company into an ownership position *without* the employees risking any of their own assets or savings.
- Since all the (permanent) employees are automatically included independent of their personal wealth, it creates a “Company of owners” (which helps create a culture of ownership)—as opposed to a Company with some owners and others being just employees.
- It can be leveraged with bank or seller-supplied credit, so a significant number of shares may be purchased at one time from a retiring owner.
- Workers do not need to sacrifice their own personal savings, lower wages, nor take out personal loans to finance the buy-out – the shares are financed, in part, through their more productive labor in the company that is producing revenues used to pay out existing owners.
- It has a system of individual internal capital accounts so that employees have individualized ownership that will be cashed out when they exit or retire (if not sooner under the rollover plan).
- Once the shares are ‘in’ the individual accounts of the ESOP, they are eventually bought back by the ESOP, so the ownership is stabilized and anchored in the local community; and
- The ESOP model allows a rollover plan so that the employee-owners may have their shares repurchased after a fixed number of years (or earlier on a FIFO basis if other debts are paid off) independent of their status with the Company.

**Appendix: FAQs About the Generic ESOP Model**

1. **Why to include all the permanent employees? What about those who do not want to become owners?**

   We strongly suggest an opt-out (instead of opt-in) version of employee inclusion like in the US ESOP. In the US, the opt-out can only be bargained collectively by a union for a certain group of employees. However the ill-fated United Airlines ESOP showed us that this is certainly not positive since it sets up an antagonistic relation between employee owners and non-owning employees⁸. There should be a clear but non-trivial procedure for a group of workers opt out of the ownership scheme. If a significant group of employees opts-out, then it is questionable whether an ESOP is appropriate for the company in the first place.

   The reason is behind the inclusive ownership culture that does not divide workers on employee-owners and employee-non-owners. Broad-based employee ownership and a

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participative ownership culture together bring the positive results behind the American ESOP experience⁹.

2. **WHAT DOES ONE-PERSON-ONE-VOTE MEAN AND HOW WOULD IT WORK?**

One-person-one-vote means that within the Coop-ESOP, the members democratically elect a representative who (i) represents the collectively owned shares on the supervisory board of the underlying company and (ii) coordinates the functioning of the trust (membership, ICAs) or decides on some other expert to do so.

Concerning the corporate governance of the underlying company, the model does not imply any changes to the classic corporate governance – in European two-tier corporate governance system, the owners—the ESOP being one owner—proportionally votes for members of the supervisory board, who elect the management board.

3. **WHEN DOES THE ROLL-OVER ‘KICK IN’?**

The Internal Capital Accounts (ICAs) are a form of subordinate debt to the members, so the cooperative cannot start paying out the subordinate debt to the members (roll-over) before the external debt is paid off (the debt to the private lender in the case of leveraged buyout or the debt to the seller in the case of sellers’ credit).

If the underlying company is financially strong and everyone agrees to both pay out the external debt (banks or sellers) and pay out the subordinated debt (roll-over) at the same time, this is also possible, but it is not a default.

4. **WHY IS THE NET-ASSET-VALUE METHOD A GOOD PRAGMATIC CHOICE FOR VALUATION?**

The general point is that the evaluation method for the employee buy-out should not be arbitrary but should be determined by law. In the US ESOPs, disputes about valuation account for most legal problems.

For a normal small or medium-sized company, the net asset value method seems generally appropriate measure of company’s value. With the companies where the assets are predominately intellectual and human capital assets, and with bigger companies where shares are traded on external organized markets, the NAV would probably undervalue the company relative to the market price. The important thing to consider here is that owners are selling part of the company to the employees not to external buyers, so as in Employee Share Purchase Plans, there is usually a discount on the full market value.

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5. **WHY IS A COOPERATIVE-ASSOCIATION A GOOD LEGAL ENTITY FOR THE OWNERSHIP VEHICLE?**

Think of the cooperative as an economic association with certain membership criteria, which in this case is employment in the underlying company. It is not a worker cooperative (members are not employed in the co-op), but an employee ownership holding company using the cooperative form. It could just as well be called an ‘Employee Owners Association’ or some variant thereof.

Practical and other reasons for having a cooperative:
- Cooperatives are membership institutions (unlike LLCs) and allow for simple membership coordination.
- Non-profit corporations cannot distribute ‘equity’ to members and the legal authorities might view the ICAs as ‘equity’ rather than subordinate debt.
- Europe has a strong cooperative tradition so national legislation will have some form of cooperative law.
- In the light of the current crisis, governments will be looking for socially and locally responsible models – a cooperative certainly is one.
- If and when 100% ownership is in the Coop-ESOP, there is no more need for two legal entities; the underlying company is ‘folded’ into a cooperative, which becomes the operating unit (Mondragon-style cooperative with ICAs).
- Cooperatives, where supported by national legislation, usually have inherent safeguards against selling-out or against other manipulations; cooperatives are, by law, democratic institutions and not capital-based organizations.
- In theory, a joint stock company can be restructured with only a special class of one-euro ‘membership stock’ with the ICAs as subordinate debt, but such a company would not have the above-mentioned safeguards against selling-out or managerial manipulations.
- A trust (foundation or stiftung) model might also be possible but trusts are used where someone is not trusted with a direct say in governance and is treated as only a beneficiary. The cooperative model allows worker-members to had a direct say in the Coop-ESOP that should foreshadow greater involvement or participation in the associated operating company.

6. **WHY TO DEFINE ONE MODEL FOR EMPLOYEE OWNER RATHER THAN LEAVE IT TO EACH COMPANY TO CREATE THEIR OWN MODEL?**

In other words, why use the lessons the 40-year old ESOP success story, rather than letting each company develop its own plan? It is important to unify the effort, to simplify bureaucratic processes, legal processes, and to enable a general understanding by workers, managers, politicians and owners of businesses. In the US, the success of employee ownership is in part due to the ESOP legislation being Federal so it is the same in all the states.

We recommend a model based on the following crucial elements for a successful broad-based employee ownership scheme:
- Ownership through a separate legal entity to unify the employee ownership.
- Inclusivity of ownership, i.e., all or almost all permanent (not seasonal or temporary) employees included.
- Buy-out financed through retained earnings of the underlying company.
- A possibility of a leveraged buy-out.
- Internal market for shares that prevents individually selling shares externally, has the automatic buying out of the shares of workers when they exit (if not before), and has the automatic inclusion of new employees.
- Governing rights in the associated operating company come proportionally with the ESOP ownership (in accordance with standard corporate governance principles).
REFERENCES


APPEAL TO ALL EUROPEAN GOVERNMENTS AND INSTITUTIONS

EMPLOYEE SHARE OWNERSHIP IN TIMES OF PANDEMIC

The European Federation of Employee Share Ownership (EFES) launches its appeal to all European governments and institutions.

This is not the first pandemic. However, for the first time, it affects the whole world without exception. Like all previous ones, this one will come to an end, after which there will be a recovery. In the meantime, it is causing a great deal of suffering, including for industrial and financial assets, which have suffered a massive loss of value.

This situation is highly favourable to the development of employee share ownership. Indeed, to cope effectively, everyone is inclined to join forces, to act in solidarity, to succeed together. These are also features of employee share ownership.

Many companies are suffering, encountering serious liquidity problems, and are looking to reduce salary costs, in order to cope. This can be offset by allocating shares to employees, especially as share prices have fallen. Taxation should not stand in the way of this compensation, it should encourage it. This is what the "initiative for employee participation" in Germany is aiming for (see www.mitarbeiterbeteiligung.de).

In addition, many businesses are at risk of bankruptcy. To cope, it is time to promote the other aspect of employee share ownership, that of the takeover of companies by employees. There are many tried and tested formulas for this - employee cooperatives, sociedades laborales, employee ownership trust, ESOP plans, the latter being undoubtedly the most effective.

Finally, many companies remain healthy but have to deal with the temporary loss of value of their assets and the coming requirements of the return to work. Here too the distribution of shares to employees can be a powerful factor for success for all.

In all these situations, taxation and public policy should not hinder but should encourage and facilitate.

We call on all European governments and institutions to act accordingly.
ANNEX 2

PROPOSAL
EMPLOYEE SHARE OWNERSHIP AGAINST THE CRISIS
AN EMPLOYEE SHARE OWNERSHIP FUND TO HELP COMPANIES

To save companies with cashflow problems or under threat of bankruptcy from the pandemic, forms of State aid are multiplying: allowances, subsidies, loans, equity investments or even nationalisation. All are ultimately aimed at existing shareholders.

At the same cost, part or even all of this State funding could be directed to helping employees become shareholders in their businesses. Companies wishing to do so could set up an employee share ownership fund, to acquire 10%, 20% or even 100% of the shares. The employee ownership model to be used is the ESOP model introduced in the United States as long ago as 1974. It was invented particularly for SMEs. It is still almost unknown in Europe, it is very different from what we know over here. However, it can be implemented in all European countries on the basis of existing legislation, by simply adapting it case by case in the finer points.

By so doing, the State aid will not only meet the needs of businesses for recovery but also the interests of European citizens in general. This alternative will fairly reward and motivate those whose work will save European businesses and the economy - business leaders and all employees. Vigorous employee share ownership will strengthen cooperation and joint responsibility, which are critical in the face of a global catastrophe in all areas.

WHY PROMOTE EMPLOYEE SHARE OWNERSHIP?

- To reward European workers and managers who continue to work in risky conditions to pull businesses and the economy out of the crisis. They absolutely must be rewarded. Employee share ownership adds significant value.
- To enhance performance of the employee (co)owned companies. Employee owned companies are more successful (better motivation, productivity, employee loyalty, innovation), hence higher efficiency and more security for the State funds.
- To solve the problem of succession in SMEs. The ESOP model was originally designed to facilitate the transfer of businesses to employees, since most owners do not have succession plans.
- To anchor the ownership of companies in local communities and amongst their own employees.
- To rebalance business ownership. This has become more and more concentrated, which is one of the main reasons for wealth inequality. Employee share ownership helps rebalance share ownership, leading to greater financial participation in companies.
- To raise social and environmental responsibility. Employee (co)owned companies generally generate less pollution and have greater respect for the local environment and their workers.

IN PRACTICE

Whatever form they take — State -aid, premiums, tax reductions, subsidies, public or private loans, equity — investments can be channeled partially or entirely into the company via an ESOP fund set up by the business. The company organises collective share ownership on behalf of all employees, the funds being used to buy newly issued shares or existing shares already held in treasury. Thereafter, once the State aid has been repaid, the shares can gradually be credited to each employee’s capital account.
For all information

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The EFES’ objective is to act as the umbrella organization of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee share ownership and participation in Europe.