

Report to the German Marshall Fund

**European-American Working Group Meeting
on Broadening Employee Ownership
October 6-8, 2002**

**Held at the National Cooperative Business Association,
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Report on European-American Working Group Meeting on Broadening Employee Ownership

Executive Summary

The initial meeting of the European-American Working Group on Broadening Employee Ownership was conducted successfully on October 6-8, 2002, in Washington, D.C. There were twenty-seven participants including nine Europeans; they included leaders of employee ownership organizations, academic and think tank researchers, and business and labor leaders from both sides of the Atlantic.

Interest in employee ownership and employee shareholding continues to grow on both sides of the Atlantic, despite problems associated with the current stock market collapse and recession. Governmental reasons for promoting ownership include a desire that it will result in broadening wealth distribution, faster economic growth, stabilized employment and reduced labor-management conflict. Employers are interested in aligning the interests of workers and shareholders in large firms and in solving problems of ownership succession in small and medium-sized firms. Labor is interested in preserving jobs and gaining a voice in management and governance of enterprises. The shape of political support for employee ownership is highly variable from country to country. In some cases, support comes mainly from the left; in others, mainly from the right. Modest progress toward consensus among the social partners has occurred in Belgium, Netherlands and U.K.

There are model employee-owned companies in several countries. These successful firms tend to practice transparency in accounting and production information, participative governance and management, and networking among individual enterprises.

Law and policy on employee ownership varies enormously among countries on both sides of the Atlantic. The differences are profound and rooted in differing ideas of the role of the individual and the government in society. Countries that offer tax benefits and institutional support have more ownership than countries that do not. Within the European Union, there is a real need for dialogue and identification of possibilities for common policies to facilitate business expansion and mobility of employees across national borders.

Financing for employee buyouts and capital investment in employee-owned companies is more available than a few years ago, but the population of investment firms with an interest in employee ownership is small. Increased levels of financing could be offered through special banks or pension fund investments.

New points of departure for additional initiatives are offered by the new European Commission Communication "On a framework for the promotion of employee financial participation," adopted in July 2002, and the International Labor Organization's new recommendation on cooperatives, adopted in June 2002.

The working group concluded by developing an extensive list of joint research topics which have clear policy implications and issues for the agenda of future meetings.

Report on the European-American Working Group Meeting on Broadening Employee Ownership

Introduction

The first meeting of the European-American Working Group on Broadening Employee Ownership started with dinner with all the European participants and the American participants from outside the Washington area on Sunday, October 6. The sessions on Monday, October 7, and Tuesday, October 8, included numerous local participants and were hosted by the National Cooperative Business Association, the umbrella organization for American agricultural, consumer, and worker cooperatives.

The working group assembled an exceptionally strong, representative group of 27 European and American participants which included leaders of major employee ownership associations in both the European Union and the United States, leading academic and think tank researchers, business consultants, and trade union and business leaders. (The fact that the group was a little larger than that anticipated in the proposal reflects increased participation from Washington-area experts.) Their common denominator: a strong interest in exploring joint European and American collaboration around research and policy development on broadening the ownership of productive assets.

The agenda, list of participants, and papers and power point presentations developed for the working group meeting and for the subsequent international conference are attached.

The purpose of the meeting was to develop a close, collaborative relationship among European and American employee ownership experts and organizations. That was, we believe, significantly achieved. What rapidly became clear was that none of the participants had anything like a complete overview of both the European and American situations; indeed, many of the Europeans found themselves learning as much from their European counterparts from other countries as from their American counterparts.

While the papers and formal presentations were very informative, the dynamism of the group's discussions was remarkable. The group explored ways to utilize the assembled talent to develop more sophisticated strategies to expand participative employee ownership on both continents.

The European-American dialogue will continue through significant American participation in the European Federation of Employee Shareownership's 4th European conference in Bilbao, Spain, on November 20-22, 2002.

The working group meeting was followed by the international policy conference of the Capital Ownership Group (COG) "Fix Globalization: Make it more inclusive, democratic, accountable and sustainable." Practically all the participants in the European-American working group meeting took part in this broader forum on October 9-11 that was kicked off with a legislative briefing in the Hart Senate Office Building.

What follows is a summary of the major themes of the working group discussion, results of brainstorming of collaborative research topics and future meeting agenda items, and a list of participants. Written materials prepared by working group participants for the working group session and for the subsequent COG conference are attached in the appendix.

1. Major themes of Working Group discussions

Interest in employee share ownership

Interest in employee share ownership continues to slowly grow among governments, enterprises, practitioners and academics on both sides of the Atlantic. In the U.S., a very large increase in the use of stock options as part of compensation and employer contributions of stock to 401(k) plans has more than doubled the number of employee shareholders in ten years, but the impact of the recession is still uncertain, as stock options lose their appeal in a declining stock market and some 401(k) holdings have been pummeled by the effect of corporate financial accounting scandals. In Europe, shareholding has also increased, and the European Union continues to allocate modest resources for studying and encouraging employee share ownership and other forms of financial participation. In the U.K., there is new law and new organizational support for employee ownership. Belgium passed an employee share ownership law in 2001. A new association of employee shareholders, the European Federation of Employee Stockownership (EFES), has been established in the European Union, and the European Commission has issued a new communication on financial participation of employees which may have substantial impact in the future. By contrast, in Spain legislation on worker ownership through cooperatives takes place on a provincial and/or regional level, so there is substantial legal diversity within the country. In Eastern Europe, a large number of employee-owned firms were created in the process of privatization; some are doing well, but overall, numbers of employee-owned firms there are dwindling, and there is little encouragement from government in the form of support organizations or tax incentives.

Sharing recent national developments seemed to be a high priority item for the participants and was listed as a subject for continued discussion at future working group meetings.

Attitudes of the social partners

Typically, but not universally, trade unions have resisted employee ownership, but now seem to be reassessing their position, more in some countries than others, as they seek new tools to deal with global concentration of capital. Labor is concerned with job security and a desire to participate in the management and governance of the firm. In the U.S., the United Steel Workers of America have been at the forefront of encouraging employee ownership, even establishing a Worker-Ownership Institute to advise and support their members in worker-owned firms; the AFL-CIO was represented in the working group meeting and in the subsequent COG conference. In Europe as well, labor's attitude toward worker ownership varies greatly. Swedish labor has long been among the most hostile to

employee ownership, but has recently begun to take a second look. In the Netherlands, labor has long been opposed, but has recently moved toward consensus with the employers' organizations, seeing potential benefits and understanding that employee ownership rightly structured is not a threat to established labor organizations or their individual members. In some states, opposition has come from employers' organizations. When employers' organizations are supportive, they tend to advocate a completely voluntary policy, tax incentives, low reporting and regulatory requirements, broad freedom to structure the firm, including the ability to deny employees a share in governance, even when they are owners. Where employers take an interest, they focus on using employee ownership to solve problems of succession and aligning the interests of employees and shareholders to gain a competitive advantage in the market.

The role of unions was judged to be very important in moving broadened ownership forward, and the crucial role of the unions in the new International Labour Organization recommendation on cooperatives was noted.

Models for employee ownership

While employee owned companies may be structured in a variety of ways, research has shown that certain practices and structures are especially helpful for encouraging economic growth. These include participative management, shared governance including worker-owner representation on the board of directors, a flat management structure, and training and information for all members of the firm from the boardroom to the shopfloor to develop understanding of the business and its industry. The weight of accumulating evidence strongly supports the conclusion that employee-owned firms that follow a strong regimen of participation and training will benefit from more rapid growth and steadier demand than comparable traditional firms in their industry. The Mondragon Cooperative Corporation in Spain is most widely admired and cited in this regard. Today the Mondragon co-ops have more than 60,000 employee owners and rank among Spain's top ten industrial companies, retail chains, financial institutions, and exporters.

Employee ownership and public policy

National law and policy on employee ownership varies hugely among North American and European states. The very conceptualization of purposes and structure of employee ownership differs from country to country. Some countries approach employee ownership strictly as an option for current owners, while others find an interest of the state in stabilizing employment, redistributing wealth, or encouraging economic growth. Some states willingly encourage it with a variety of tax incentives and organizational support, while others provide nothing at all. Recent research has clarified the extent of variation, but study of the costs and benefits of different approaches is in its infancy. It appears that there are benefits to be identified in several national approaches, and much work remains to explore the possibilities for developing consensus on a model approach. A minimum common approach is desirable because the present variation sometimes imposes heavy costs on the growth of firms and movement of individuals across international boundaries.

Investment in employee ownership

While it is clear that national policy can encourage broader employee ownership through tax policy and support organizations, employees can have difficulty raising the initial capital to make buyouts and obtaining favorable credit terms for expansion, particularly during the early years of life as an employee-owned company. There are only a small number of investment firms interested in investing in employee owned companies. One successful solution to this challenge can be seen in the model of the Mondragon Cooperative Corporation, which established a bank for its member cooperatives. Another solution is unfolding within the labor movement, which has become increasingly concerned with investing labor pension funds consistent with the interests of its members and retirees. In Canada, this has taken the form of provincial labor-sponsored investment funds that focus on investments in the provincial economy, with a preference for employee ownership. In the U.S., labor pension funds have led other pension funds in developing proxy voting guidelines for professional fund managers, including accounting and governance standards, use of responsible contractors, neutrality to unions in placing private equity investments, and ethical investment in emerging markets. Organized labor is becoming interested in investing in employee-owned companies, particularly within regions hard-hit by recession and deindustrialization.

New European and international initiatives

In summer 2002, both the Commission of the European Union and the International Labour Organization (ILO) undertook new policy initiatives which will affect employee ownership.

The new European Commission Communication "On a framework for the promotion of employee financial participation," adopted in July 2002, offers significant new points of departure for additional European initiatives. It calls for the establishment of a new expert commission, which will build on ten years worth of European Union-sponsored research in this area, and for a major program of input at the national level from the social partners and from others in all the European Union member states.

The ILO has taken an interest in cooperatives since its founding in 1919. Its cooperative technical service was established in 1920. Its Cooperative Branch, which provides technical support for cooperatives, sets standards and encourages support for all kinds of cooperatives, including those that are worker-owned. Its 176 member states send delegations from government, employers and labor to an annual conference. The June 2002 conference adopted a new Recommendation (No. 193) concerning the promotion of cooperatives. This Recommendation expanded the ILO's focus on cooperatives as an important tool for workers in developed countries. (The prior ILO cooperative recommendation from the 1960s had focused on the use of cooperatives as a tool for developing countries.) Thus, Recommendation No. 193 expands the mission of the ILO Cooperative Branch in a way that dovetails with the growth of employee ownership in Europe and the US. The Recommendation is not binding on members, but sets goals which members may work toward. The new recommendation on cooperatives urges that they have legal standing, equal treatment with other enterprises, support from government

and employers' and workers' organizations, and the ability to participate in international communication and economic exchange with other cooperatives.

Joint research and future meeting topics

The group spent much of the final afternoon brainstorming and discussing possible collaborative research and policy development ideas as well as topics worthy of focus at future meetings.

Research topics ran the gamut from basic research (how does broadened ownership impact the micro level, such as rates of reinvestment; the community, such as health and civic participation; and the macro level, such as rates of growth) to comparative policy analysis and development. Several of the topics discussed at the working group meeting have been added to the agenda for a European-American issue of the Swedish journal *Economic and Industrial Democracy* to be edited by Nijmegen University professor Erik Poutsma.

The discussion of future meeting topics generated enough subjects for several additional meetings, and there seemed to be a strong interest in continuing the trans-Atlantic dialogue on broadening ownership of productive assets.

The results of the brainstorming of possible collaborative research topics and future meeting agenda topics follow in sections 2 & 3.

2. Collaborative research ideas and policy development projects

Brainstorming is an excellent method to put ideas on the table, not to flesh them out. This brainstorming list of research ideas is presented with that caveat.

Theory

Create a discussion framework on theoretical and practical approaches to empowerment of ordinary working men and women: what is the utility of the ownership-based approach compared and contrasted to a democracy-based approach?

How does broadened ownership impact macro-economic performance?

This would include

- 1) a cross national analysis that uses
 - * the University of Texas "inequality project" data
 - * the Australian report on inequality
 - * the study funded by the MacArthur Foundation on the impact of inequality on

growth

- 2) new data collection as necessary

The inverse – the impact of the mal distribution of wealth on growth – is also worthy of study. As part of this area of research, effects of merger and acquisition activity leading to increased absentee ownership deserve analysis. In particular, what happens to technology companies when control passes from local to absentee ownership?

How does employee ownership affect communities?

* Replicate findings of David Erdal with additional studies of the impact of cooperatives on community health – physical and emotional. Compare matched communities with and without cooperatives/employee ownership.

* Analysis of the impact of where decisions are made, especially through broadened, locally anchored ownership, on the community: on measures of community economic performance and social indicators.

Corporate governance

* What can Americans in the post-Enron debate on corporate governance learn from German corporate governance and co-determination?

* From other European countries' experience?

* From the recent EU decisions on worker representation in corporate governance in the European corporations?

Economic development

* Study Canadian regional development for lessons for Europe and the U.S.

* Compare use and impact of company networks among cooperatives and other employee-owned companies

* Explore trends in new economic institutional development/employee ownership and develop policies to encourage ownership

* Compare national policies on what governments get in return for providing subsidies and supports to private companies

* Local economic development agencies' involvement with cooperatives and employee ownership

Training and education

* Compare management training designed for cooperatives, employee-owned companies and participative management. Examples: Mondragon University (Spain); Nijmegen University (Netherlands) School of Business Conference on Social Responsibility; College of Notre Dame of Maryland (US); University of Manitoba (Canada). Develop model program.

* Develop and promote training for worker directors

* What do we know about the impact of school programs that teach principles of cooperatives, sometimes as early (as in rural Ohio) as the 4th grade curriculum?

Trade unions

* Compare trade-union experiences in worker-owned companies

* Bring the trade union leaderships together for education and exchange of experience on employee ownership (EFES)

* Comparative union experience with participation systems and corporate governance

Investment issues

* Identify mechanisms that facilitate savings (and funnel them into worker ownership)

* What is the impact of tight money policies on financing employee ownership across nations?

* Investment of trade union pension funds in the U.S. and Europe: focusing them more on

employee ownership

- * Compare investment patterns in worker-owned and conventionally-owned companies
- * Are there successful asset building systems that work in advanced industrial democracies? How do they work? Can they be replicated?
- * Can Individual Development Accounts (IDAs) be successfully linked to employee ownership?

3. Possible topics for future meetings

Here is the list of topics brainstormed for future working group meetings.

Continuing mutual national updates

There was general agreement that the national updates were extremely useful.

Identify and explore central theoretical issues

- * What is the role of employee ownership in system change?
- * What are effective strategies for spreading employee ownership?
- * Why is it important to promote employee ownership?
- * Identify distinctive cultural approaches, for example French-German style vs. Spanish vs. Anglo-Dutch vs. U.S.

Develop standards for

- * ownership impact statements
- * reporting employee ownership in public companies which could be applied in both North America and Europe

Cooperatives and Mondragon

- * What are the limits of the Mondragon model?
- * Consolidate and compare what we know about the economic performance of worker-owned and cooperative companies
- * Comparative law on cooperatives and worker ownership

Discussion of employee ownership in privatization and deregulation

Trade unions

- * What local trade unions can do with worker ownership
- * Education of senior trade union leaders in employee ownership basics, perhaps with visits to unionized employee-owned firms

Discussion of new openings in the public debate for broadening ownership

- * The failure of Enron, etc., demonstrates failure of current approach to corporate governance.
- * Collapse of Argentina's economy and elections in Brazil raise issues of the viability of Washington consensus policies.
- * Employee pension funds were among the primary groups which lost out. How should they invest instead?
- * Short-term thinking has failed. What are the alternatives?

- * The expansion of the European Union to include as many as ten new member states offers impressive opportunities as well as challenges (Cyprus)
- * Rethinking privatization and deregulation

Sustaining local economies in economic globalization

- * Responding to dislocations caused by plant shutdowns
- * Reconstructing local financial institutions
- * What is the impact of local vs. absentee ownership?
- * Creating new institutions for community economic development

Continuing the dialogue between meetings

- * How do we best share experience on an ongoing basis (the web?)
- * How can we assist each other and on what issues?

4. Conclusion

The European-American working group meeting was successful beyond our expectations.

(1) The group of participants was larger and more centrally placed than we expected. The only major group not represented was the European cooperatives (although some of the individuals present were involved in the European cooperative federation); the reason was the fact that the International Cooperative Alliance was holding a meeting at the same time.

(2) The discussions were lively throughout; it was clear that they could have continued usefully.

(3) The research agenda generated by the meeting could shape the research work of a generation of scholars in this area. Likewise, the discussion topics proposed for future agendas could fill several working group meetings.

(4) The discussions have already impacted the development of at least two new joint projects: a special issue of the Swedish journal *Economic and Industrial Democracy*, to appear next year, and a small volume that is likely to be published and distributed by the International Labour Organization.

This initial working group meeting suggests that there is sufficient interest to continue such working group discussions, especially if they can be coupled reports of individual and joint research.

Attachments

List of participants
 Agenda for meeting
 Papers for working group meeting & subsequent COG meeting

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Participants

Per Aahlstroem, longtime labor journalist, now consulting in business training, Sweden

Gar Alperovitz, Professor of Economics, University of Maryland, and Democracy Collaborative, US

Dan Bell, International Program Coordinator, Ohio Employee Ownership Center, US

David Binns, Vice President of Beyster Institute (formerly Foundation for Enterprise Development), Washington, D.C., US

Ray Boshara, New America Foundation, promoting means for poor people to develop assets, US

Adrian Celaya, General Secretary, Mondragon Cooperative Corporation, Spain

Steve Clem, Ohio Employee Ownership Center, US

Tom Croft, executive director Steel Valley Authority in western Pennsylvania, a regional development fund promoting redevelopment and employee ownership, US

Carla Dickstein, Coastal Enterprises, Maine, US

Richard Dines, National Cooperative Business Association, Washington, US

David Ellerman, economist and founder of the Industrial Cooperative Association in Boston, former speechwriter and advisor to Joseph Stiglitz, at the World Bank since 1992, US

David Erdal, Director of Baxi Partnership Limited, an investment company owned by employees of companies seeking to convert their firms to 100% employee ownership, UK

Juan Guillermo Espinosa, Economist, external advisor, UN Economic Commission for Latin America and the Caribbean, Chile

Paul Hazen, President, National Cooperative Business Association, Washington DC, US

Mary Landry, Board Member at Maryland Brush Company, an employee-owned firm, US

Matthew Lea, Director of International Research, National Center for Employee Ownership, Oakland, California, US

Mark Levin, Director, International Labor Organization's cooperative division, Switzerland

John Logue, Director, Ohio Employee Ownership Center, Kent State University, US

Leta Mach, National Cooperative Business Association, Director of Cooperative Education, US

Mark Mathieu, economist and executive director of European Federation of Employee Shareownership, Belgium

Deborah Olson, Executive Director, Capital Ownership Group, Detroit, Michigan, US

Eric Poutsma, Associate Professor, Nijmegen University, Department of Business Administration, Human Resource Management and researcher on employee financial participation in Europe, Netherlands

Carl Rist, Corporation for Enterprise Development, Washington DC, US

Joel Solomon, Assistant Director, Center for Working Capital, AFL-CIO, US

Vic Thorpe, principal of Just Solutions, a consultant network for labor unions and worker-friendly initiatives and former general secretary of International Chemical, Energy, Mine and General Workers Union, Belgium

Pierre Vanrijkel, president of European Federation of Employee Shareownership, Belgium

David Wheatcroft, Job Ownership Ltd., and employee-owner, Chesterfield Bus Company, UK

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