SN Bus Econon (2022) 2:186
https://doi.org/10.1007/s43546-022-00363-7

ORIGINAL ARTICLE

European Employee Stock Ownership Plan (ESOP): the main structural features and pilot implementation in Slovenia

David Ellerman[1] · **Tej Gonza**[1,2] · **Gregor Berkopec**[2]

Received: 28 May 2022 / Accepted: 14 November 2022
© The Author(s), under exclusive licence to Springer Nature Switzerland AG 2022

Abstract

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. ESOP is one of the most successful and unifying models for employee ownership in the world. Europe, however, lacks a generic model that could help the fragmented attempts at promoting employee ownership. The method used in the paper is a qualitative analysis of the US ESOP. We find that there are certain central features to the US model that should be maintained in the European attempts, and that there are certain flawed features that should be replaced by a better legal-organizational structure. The purpose of this paper is to analyze the main features of the US ESOP model and to define a technical description of the European ESOP, which builds on the good features of the US model and improves the flawed features. The paper also introduces the Slovenian pilot implementation of the European ESOP. The implication of the paper is to provide clarity on the structural features of the dominant employee ownership models, and to inform policy makers promoting employee ownership in Europe.

Keywords Employee Stock Ownership Plan · ESOP · Employee ownership

JEL Classification J54 · K20 · P13

Introduction

In Europe, employee ownership (EO) is increasingly identified as one of the most operational and effective economic alternatives to the dysfunctional economic system of the twenty-first century (EFES 2019; Fizi 2013; Lombardozzi and Cozzolino

✉ David Ellerman
david@ellerman.org

1 Faculty of Social Sciences, University of Ljubljana, Ljubljana, Slovenia

2 Institute for Economic Democracy, Ljubljana, Slovenia

Published online: 23 November 2022

2019; Lowitzsch and Hashi 2014; Nuttall 2019). This is understandable since the Western counterparts are exemplary cases of excellent practice in the field of EO. Over the Atlantic, the American Employee Stock Ownership Plan (US ESOP) was introduced already in the late 1970s and now there are about 7.000 ESOPs in the USA covering about 10% of the private workforce. More recently and closer to the EU, the UK has passed the Employee Ownership Trust (EOT) law, which offers very similar buyout mechanism and has very similar features with some notable exceptions.[1] Just last year, the Canadian government committed part of the national budget to establish employee ownership based on the US and the UK examples to address the business succession problem in small-and medium-sized enterprises (SMEs), and it seems that it is only a matter of time until an appropriate law follows.[2]

There has been a great variety of employee ownership models in Europe. Some of the best examples are Marcora in Italy, Sociadades Laborales in Spain, Le FCPE de Reprise in France, and many unregulated ad hoc models set up by individual owners without any institutional support. None of those models, however, offers an effective and systematized tool for business succession. While the European Commission has been touting ownership succession at the top of the challenges list for the SME sector for the past decade (European Commission 2016; Močnik et al. 2019; Schiefer et al. 2019), Europe continues to lack a universal and functional model for large scale ownership transfers to employees (Bohinc 2019; Brazda et al. 2012; Fizi 2013; Lowitzsch and Hashi 2014; Mygind 2012).

Based on prevalence and business performance, we argue that the most successful model of employee ownership around is the US ESOP model. Nevertheless, the model faces certain problems. The main research question is: What are the structural features of the US ESOP model that are beneficial and what are the structural features of the US ESOP model that should be improved? This question has not yet been sufficiently addressed in the literature. Furthermore, we ask how the results of the analysis of the US ESOP model can be applied to construct the employee ownership model for Europe. The outcome is a generic model with a set of generalized features, which we call the "European ESOP". These features are open-ended enough to be used in devising the national models in Europe, but are also narrow enough that the system accounts for the main challenges of the historical and contemporary employee ownership models.[3] The description of the European model is the second contribution to the literature—and it is further strengthened by the fact that the technical concept got a proof of concept with the implementation of the European ESOP in Slovenia.

[1] One of the major shortcomings of the UK EOT is that they lack one of the most functional inventions in the co-operative and employee-centered companies, the individual capital accounts (ICAs) used by ESOPs in the USA, Mondragon co-operatives, and proposed for the European model.

[2] Accessed on 21st of April 2022 on the website https://theconversation.com/new-budget-offers-canada-a-chance-to-get-employee-ownership-right-181019.

[3] The first publication of the model dates back to 2019, when the technical concept was described in a paper published by the European Federation for Employee Share Ownership in Brussels (Ellerman and Gonza 2020).

The methodology of the paper includes a qualitative analysis of the ESOP model based on the existing studies. We argue that while US ESOP is highly successful, there are certain features of the model that should be improved. Based on the analysis of the US model, we will devise technical solutions that address the problems and create a new model intended for implementation in European countries.

The purpose of the paper is to arrive at a description of an improved employee-buyout model based on the critical analysis of the US ESOP. We also describe the pilot implementation in Slovenia, where the Slovenian ESOP—as the national adaptation of the general principles behind the European ESOP—has been implemented for the first time.

Analysis of the US ESOP model

Since the early 1970s, the predominant model of employee ownership in the USA is the Employee Stock Ownership Plan (henceforth 'ESOP'). ESOP is a model for employee buyouts that is based on the leveraged financial mechanism through a separate legal vehicle, which holds shares of the underlying business firm in the name of the employees in the firm. The National Center for Employee Ownership reports that in the USA, there are currently 6.482 ESOPs, holding assets of over 1,6 trillion dollars, and including 13,9 million participants, which is close to 10% of the private workforce.[4] ESOPs show that the right institutional support *and* the right internal structure of employee-owned firms can indeed push employee ownership into the economic mainstream. While results are certainly encouraging, ESOPs have also faced certain problems. The US ESOP was established as a pension fund; at the time, the simplest way to establish an EO model was to carve out the private pension legislation so that the trust could hold more than 10% of the company's shares. While this was the pragmatic way to establish EO in the USA, it has brought about some legal artifacts that are arguably detrimental to the ESOP model. This section explores both the 'good' and the 'bad' of the US ESOP model. The analysis will provide a description of positive features and flawed features that should help us to devise a model of employee ownership for Europe that includes the first set and improves on the second set.

The good features

Broad-based employee ownership model

The ERISA (Employee Retirement Income Security Act) law requires that *all* permanent employees[5] are part of the ESOP employee ownership program *without* the employees risking any of their own assets or savings. Since all permanent employees

[4] Accessed on 8th of September 2022 at the website https://www.nceo.org/articles/employee-ownership-by-the-numbers.

[5] Contractual workers and seasonal workers are excluded from the US ESOP scheme.

are included, at least when ESOP contributions are made, the US ESOP creates a company of owners, which helps to create a healthy workplace culture. Studies have repeatedly showed that good workplace culture is one of the central parts of effective employee ownership models (Blasi et al. 2016, 2016, 2018; Frega 2020; Mygind and Poulsen 2021). Indeed, ESOPs, on average, seem to enjoy superior business performance, growth, and resilience relative to comparable conventionally owned firms (Bernstein 2016; Blasi et al. 2013, 2021; Jarboui, n.d.; Kim and Ouimet 2014; Kruse 2016; Kruse et al. 2010; Kurtulus and Kruse 2017) and broad-based ownership structure plays a crucial role in attaining these results (Corey et al. 2005). On the contrary, examples of ESOPs, where a group of employees bargained to be excluded from the ownership, often end in disasters in part because of this exclusion.[6] Therefore, one of the more important features of the US ESOP is inclusivity—when everyone is in the same boat, everyone is motivated to help rowing faster and safer across the rough seas.

Leveraged buyout mechanism

The ESOP buyout 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. In the case of debt leverage by an external financier, the company guarantees the loan by securing a note promising regular ESOP contributions on a monthly or annual basis. This solves the so-called "financing problem", which was widely discussed in the literature on cooperatives and other forms of employee ownership as one of the main reasons for the scarcity of employee-owned firms in contemporary economies (Dow 2018). In the case of ESOP, the underlying firm guarantees for the loan, which is eventually repaid through the transfer of retained net income channeled through the ESOP to the seller (seller's credit) or the external creditor (loan leverage). The seller's credit option is usually cheaper and less complicated; however, it requires the owner to agree on being paid out over a period of several years, depending on cash flow to the ESOP trust.[7]

Individuated indirect ownership

The ESOP introduces two central features to a successful ownership scheme—it individuates shares to employee in the company, preventing the failures of the historical "socialized" employee ownership models, and holds shares in a separate legal vehicle, preventing the failures of the historical attempts at "direct" employee ownership. The first technical element are individual capital accounts, which are designated to each ESOP participant. ICAs "measure" the individuated claim over the net

[6] This was the case with United Airlines ESOP. A good take on the UA ESOP can be found on the following website—https://www.forbes.com/sites/fotschcase/2017/04/17/uniteds-troubles-could-have-been-avoided/?sh=44e155e7c062.

[7] All of the Slovenian ESOP projects in the pilot phase are based on sellers' credit since financial institutions need a functional example and/or a law before they are willing to participate.

asset value (or the market value) of the underlying company. The individuated claim over the net asset value presents a solution to the famous critique of self-management introduced by Furubotn and Pejovich (1970), since workers maintain the claim over the net income *after* it is reinvested (Ellerman 2020). The system of ICAs allow employees to cash out the reinvested value after they exit or retire, while the indirect ownership through a separate legal vehicle prevents that the individuated claim would impose the threat to employee ownership by allowing employees to freely sell or trade the shares in their ICAs. The individuated indirect employee ownership means that while claim over the reinvested value is personal to each employee participant in the ESOP, he or she does not hold the shares directly but only enjoys the limited ownership rights through the institutional intermediary, the ESOP trust. The indirect ownership is crucial for the sustainability of employee ownership—if workers hold shares directly, the experience from the privatization in the East and Southeast Europe shows that they are inclined to sell or trade the shares under soft or hard pressures of the external stakeholders (Ellerman and Stiglitz 2001). Rather than selling out of the company, the ESOP buys back the shares on ICAs and distributes them to current workers. In this way, the ownership is anchored with the current generation of employees, who are also members of local communities. Rather than dispersing, ownership remains with the local community, which aligns the interest of the business with that of its surroundings, leading to socially and environmentally responsible practices (Boukhima and Khallouki 2022; Burgess 1999; Hübner 2020; Sahasranamam et al. 2019; Stranahan and Kelly 2020).

Institutional incentives

The US ESOPs is also incentivized by favorable tax treatment (favorable in US terms) of 2 main transactions: (a) if the seller sells more than 30% of the company's shares to the ESOP and invests the received purchase price back into the US economy, the received purchase price is not taxed; and (b) accumulated wealth of beneficiaries in the US ESOP is not taxed until it is paid out. Even then it is taxed only if it is not invested in a recognized pension scheme. Additionally, tax breaks were granted for creditors (no tax on interests paid on loans or credits to the ESOP transaction), which helped to establish a market for financial instruments supporting employee buyouts. The tax incentives are essential to a healthy development of employee ownership, since the leverage buyout mechanism does not allow to pay the owners a competitive price that he or she might receive on the market—a strategic buyer might be willing to pay the premium on the price for the share to consolidate the market or for other reasons. Tax breaks play a crucial role in creating the conditions of the "equality of opportunity", since they bring the net owner payoff in the case of the ESOP sale closer to the net payoff realized in the strategic sale.

The flawed features

Repurchase liability

The US ESOP was implemented as a special type of retirement plan, so the ESOP does not need to buy back the share until the employee exits or retires. There are some provisions that some shares can be repurchased after the beneficiary reaches the age of 55, and there were individual and isolated cases where the ESOP was structured in a way that employees could access ICA liquidity before retirement.[8] There are multiple problems with the fact that the ESOP buys back the accumulated value on ICAs only upon exit—one of the biggest probably being the problem of the repurchase liability, which is imposed and enhanced in the case that many "large accounts" decide to exit the plan in the short period. In those cases, the repurchase liability can be substantial, and the ESOP may not be able to pay out its financial obligation to retiring or exiting participants (Smith and Burt 2009). Even more so, the situation may lead to the run on the banks where the anticipation of the repurchase difficulty may create the repurchase difficulty. The repurchase liability is considered as one of the reasons for the ESOP terminations. Indeed, ESOP termination is a large problem not sufficiently discussed—the number of ESOP companies and its participants is stagnating for decades now, and while many new ESOPs are created annually (NCEO reports that in 2019, 239 ESOPs covering 46.537 employees were created), at least as many are terminated every year.

Other related problems with ICA value accumulation

In the US ESOP, the contributions to ESOP are only made when there is a loan to be paid off or shares to be repurchased (either the existing owner sells more outstanding shares, or employees retire and sell ESOP shares). It is only *then* that the new employees get the shares to their ICAs, which means that no shares are individuated until there are more ESOP contributions. The next problem with the accumulation of the ICA value is that older accounts bear unproportionally higher risk to younger accounts—the distribution of risk in the case of insolvency is much greater for workers that have been with the company for a longer period and hold much higher account value on their ICAs. Next, the fact that the ICA value is paid out only after exiting the company or retiring presents an unappealing incentive structure. On one hand it promotes exit of workers if they are in demand for liquidity, and on another hand, it does not provide a tangible motivation for younger employees whose retirement is way down the horizon.

[8] https://www.fiftybyfifty.org/2022/03/central-states-manufacturing-gives-workers-early-access-to-esop-wealth/

Non-participatory legal design

In the US ESOP, the ESOP is a trust, and the employees are only "beneficiaries" as if they were minors. The problem with this is that participation of employee owners is integral part to healthy organizational culture and the productivity effects that are generally associated with the successful employee ownership firms. Early research on employee ownership suggests that the positive productivity effects are "largely contingent on the presence of programs of workers participation" (Pencavel 2001: 81). Contemporary research confirms these findings—the most important complementary element to ownership for achieving increased productivity, growth, and business resilience is meaningful influence of workers (Basterretxea et al. 2020; Blasi et al. 2018; Frega 2020; Mygind and Poulsen 2021; Wu and Paluck 2020). Indeed, the studies indicate that the most salient correlation is between performance and participation of workers; a very early research already shows that "ESOP companies that instituted participation plans grew at a rate three to four times faster than ESOP companies that did not" (Rosen and Quarrey 1987).

The European ESOP

The structure of the European ESOP must keep the good features and address the problems of the US ESOP. Firstly, it must address the problem of the repurchase liability. Secondly, it must allow that new employees are automatically included, that the tangible incentive is provided for younger workers, and that the risk is more equally distributed among the ESOP participants. Finally, it must create a structure that, already by the legal default, creates the conditions for employee participation.

The European ESOP (or just "ESOP" hereafter, unless otherwise specified) is a separate legal entity associated with a company (hereafter "Company"). That separate legal entity could be a new type of cooperative (Employee Ownership Cooperative or EOC), which can distribute profits to its members and where membership is administered with low transaction costs and simplified red tape. Each Company employee is a member of the EOC and has a personal capital account in the EOC to hold their individuated capital shares in the Company—the personal accounts are called individual capital accounts (ICAs).

The ESOP is a vehicle for the employees in the associated Company to acquire, over a period of time, some percent of the Company's ownership (anywhere between 0 and 100%). The shares owned by each employee are kept in the ESOP in an individual capital account so the employees will enjoy the rights to the income and capital appreciation rights of the shares, but they *may not* individually sell, mortgage, or bequeath the shares. We call such an arrangement an *individualized indirect EO*, which separates it from *collectivized indirect EO* exemplified by EOTs in the UK

and *individualized direct EO* exemplified by ad hoc employee ownership models like Employee Share Purchase Plans or ESPPs, stock options, and other forms EO where employees directly hold shares or are partners of an enterprise.

The *individuated indirect* EO addresses two problems: First, it provides individual incentive for investment and addresses the problems of underinvestment infamous to the socialized forms of employee ownership like the Yugoslav self-management (and more modern *collectivized indirect EO* schemes like the UK EOT model). Second, it solves the succession/degeneration problem since workers do not directly hold shares, which means that it is difficult to sell shares to outside investors (preventing leakage of shares) and it is impossible to trade shares within the ESOP (preventing concentration of shares with management).[9]

The US and the European ESOP are *not* based on employees personally making share purchases out of their salaries or other income. One of the central features of the ESOP model is that the Company makes periodic ESOP contributions, much like a form of tax-favored profit-sharing, in cash to the ESOP which then passes the money through to buy out the shares of an existing owner (and eventually to buy back employee shares).

Most of the US ESOPs have been established to address the succession of family firms or SMEs where the founders wanted to retire or exit to pursue other opportunities with no family members who want to take over the business. Selling to a competitor usually means a slow death of the enterprise as the competitor moves the customer list, some key employees, and eventually all the business to their main facilities. Family firms are also benefactors in the local community by providing jobs, income, and taxes to support the community—so selling out to a competitor may eventually be seen as a betrayal of the community and the local employees who, for the most part, will lose their jobs. That is not a good legacy for a family firm. The ESOP provides the alternative of rewarding the employees who helped build up the Company and keeping the jobs, incomes, and taxes in the local community, while also awarding the founders and owners for their lifelong efforts.

Other ESOPs in the US have been set up because owners wanted to access cheap debt capital (leveraged ESOPs) or owners wanted to motivate and reward employees by making them owners. While most US ESOPs are in the SME sector, some US ESOPs are part of large companies.[10]

Illustration of the European ESOP transaction

One way to understand the European ESOP structure is to follow the steps in all the transactions. In our example below, there are four different entities—Employee

[9] One of the common problems with internal and employee ownership was the lack of an effective mechanism for preventing the degeneration through the selling of the shares to outside buyers. If employees are direct owners of shares, there is an incentive for each individual employee to look for a better price on the market for that share, if the legal structure allows that. Degeneration happens when shares are brought with employees into their retirement (and are then inherited) or when sold to outside investors, which gradually shifts ownership outside of the Company and ''degenerates'' the employee-owned structure.

[10] The largest ESOP is a supermarket chain Publix Supermarkets with 207.000 employees. The list of biggest US ESOPs here—https://www.nceo.org/articles/employee-ownership-100.

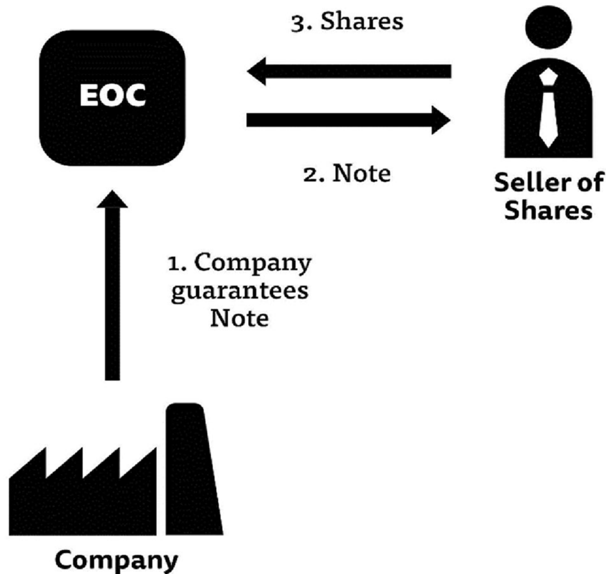

Fig. 1 The initial transaction

Ownership Cooperative (EOC), Company, seller of shares, and employee owners in EOC. The illustration describes the main mechanism of partial buyout of shares from the seller.

Initial transaction

Step 1 In Fig. 1, the seller of shares (owner selling part of the shares or anything up to a 100% to EOC) gets a guarantee from the Company, which ensures that contributions will be made to the EOC to eventually pay off the note in return for a certain percentage of the shares going to the EOC.

Step 2 Share is valuated, and the EOC issues the guaranteed note to the seller, which states that EOC owes the value of shares to the seller.

Step 3 The shares pass to the EOC. The shares are not individuated to the employees at this stage, but are held in an unindividuated suspense account, which holds the unindividuated shares.

Paying out the seller

Step 4 In Fig. 2, the Company makes regular (e.g., monthly, or annual) cash contributions to the EOC. Before any special legislation is passed, the contributions will probably be taxed on the level of the Company with corporate income tax and transferred to the EOC as dividends.

Step 5 The cash is passed through the EOC to pay down the note from the seller.

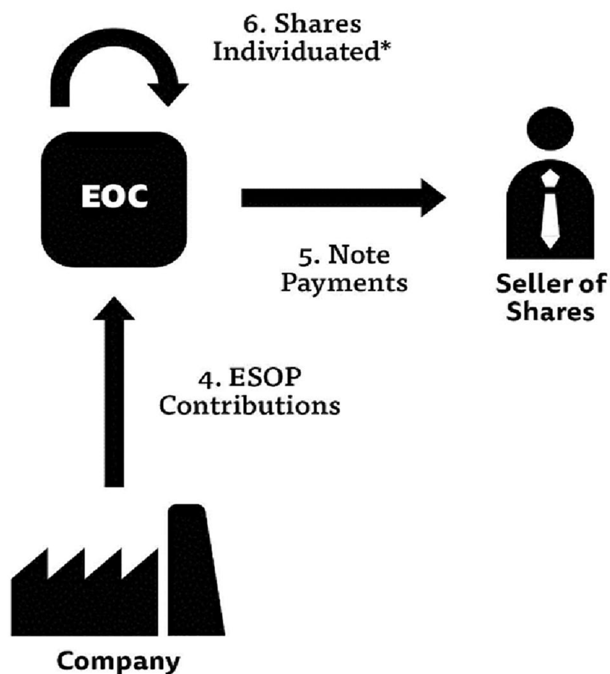

Fig. 2 Payments to the seller

Step 6 Shares equal in value to the principal portion of each note payment are taken out of the suspense account and divided between the individual capital accounts, usually according to salary as illustrated in Figure 3. Each year, the shares that are paid off are distributed to ICAs -shares are allocated to ICAs in bundles designated by a date, which is important for the rollover (see below).

Rollover system

Step 7 In Figure 4, the ESOP contributions continue on a regular basis after the note to the seller has been paid fully. In that moment, all the shares are individuated to ICAs and there are no shares left in the suspense account.

Step 8 EOC maintains liquidity through controlled cash flow from the Company, which it uses to repurchase the oldest ICA shares from the employees on a first-in-first-out basis. In the example above, in 2025, the first bundle of shares was repurchased from Employee 1 and 2 (shares 2022) as in Fig. 5. They are momentarily placed in the suspense account.

Step 9 As the oldest shares are repurchased from the member (whether still an employee or not), those shares are redistributed to the active ICAs—active ICAs are held by employees who are still with the Company. Employees who left the Company do not get new shares redistributed and are gradually paid out within the rollover system. When a new employee joins, as in the picture, he or she also receives the

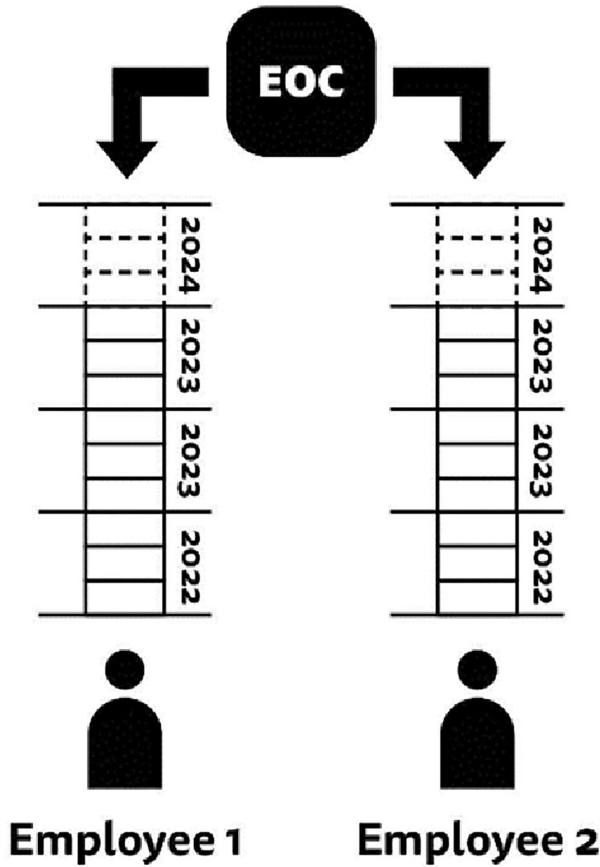

Fig. 3 Allocation to the internal capital accounts

shares reallocated (now with the new date on the bundle)—redistributed shares also go to new members as in Fig. 6.

Keeping the good and addressing the flawed

The European ESOP maintains the good features of the US ESOP. European ESOP is financed through the leverage in the same way as the US ESOP. It keeps the ICAs and the separate legal vehicle holding shares. The internal rules require that all or at least a great majority of workers are included in the scheme. Finally, the national legislation should grant substantial tax incentives and establish a supportive infrastructure to help to foster European ESOP in different countries.

In the European ESOP, the ESOP contributions are regularized to repay the loans/notes or to start the share rollover so new workers are automatically included in the ownership, and exiting workers are automatically bought off without imposing an unpredictable repurchase liability. Since the ESOP contributions are determined

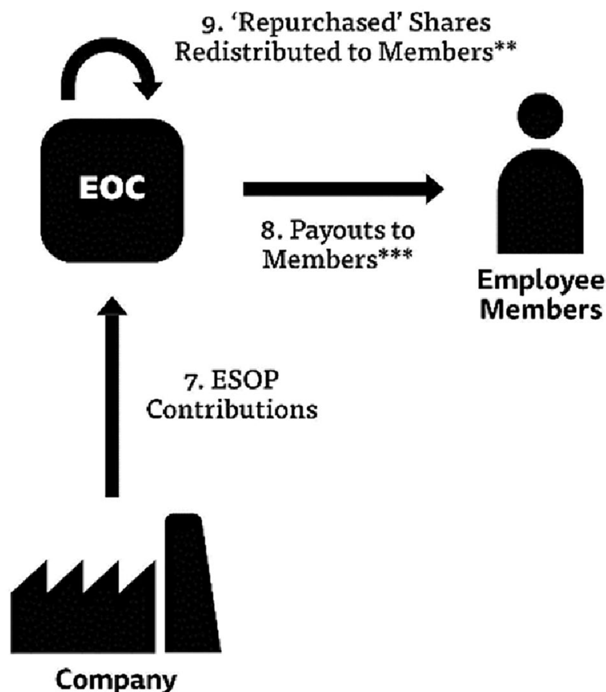

Fig. 4 The rollover system

based on annual financial capabilities of the underlying Company, and since the contributions determine the size of the rollover, this solution addresses the repurchase liability that has been discussed as one of the problems of the US ESOP. At the same time, the rollover tends toward equalizing the ICAs among younger and older members, distributing the risk more equally. Finally, if US ESOP motivates people to leave the Company to "see the money", the European ESOP corrects for that incentive. At the same time, it gives the younger workers more tangible motivation since they start receiving payments sooner. The democratic governance of the European ESOP is the first step toward building an ownership culture in the Company since the employees are treated as partners. In the European ESOP, the ESOP is an ownership vehicle that is democratically governed by its members (i.e., the Company employees beyond some probationary period). All members have one vote, which grants them a say in the (annual) general assembly of the EOC when discussing high-level corporate decisions, and one vote in delegating their representative (and the EOC board). The representative votes on the block of shares held by EOC at the shareholder assembly of the Company. The governance structure of the European ESOP provides both voice and influence to the employee owners (Table 1).

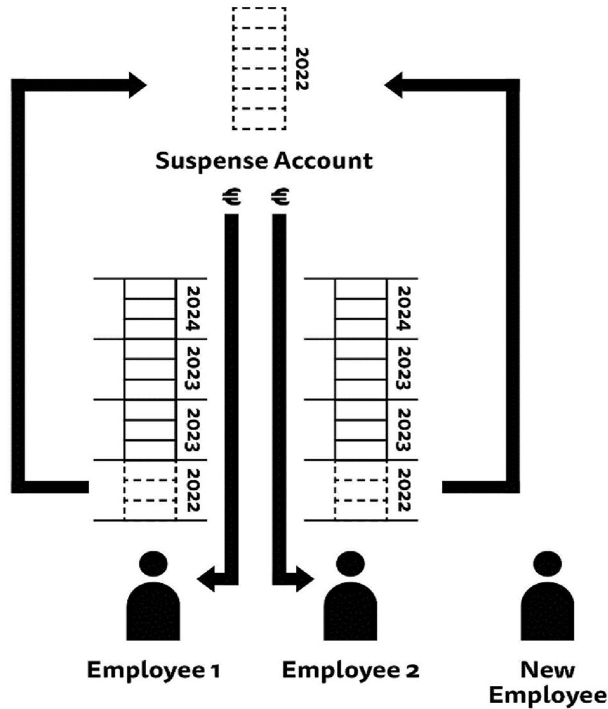

Fig. 5 Operation of the rollover system

The Slovenian ESOP and the pilot implementation

In this section, we describe how European ESOP was adapted to the Slovenian legal environment—Slovenian ESOP—and legally implemented private enterprises.[11] The Slovenian ESOP model is based on the basic principles behind the European ESOP model.

The separate legal vehicle is the Employee Ownership Cooperative (EOC), which plays the role of the ownership trust for employees. The EOC is a membership organization, which means that inclusion and exclusion of employees into ownership through EOC is based on predefined rules and conditions. This severely decreases transactions costs and simplifies the red tape. At the same time, cooperatives have the possibility of paying out profits to their members, which is something that other legal forms such as a foundation (“*stiftung”*) or non-profit company may not allow.

The Slovenian ESOP is founded by the employees of the Company. In the process of incorporation, the employees themselves actively participate in the formation of the specific rules of their ESOP. While the general features are defined by the model

[11] We anticipate that the Slovenian ESOP will be legalized in 2023.

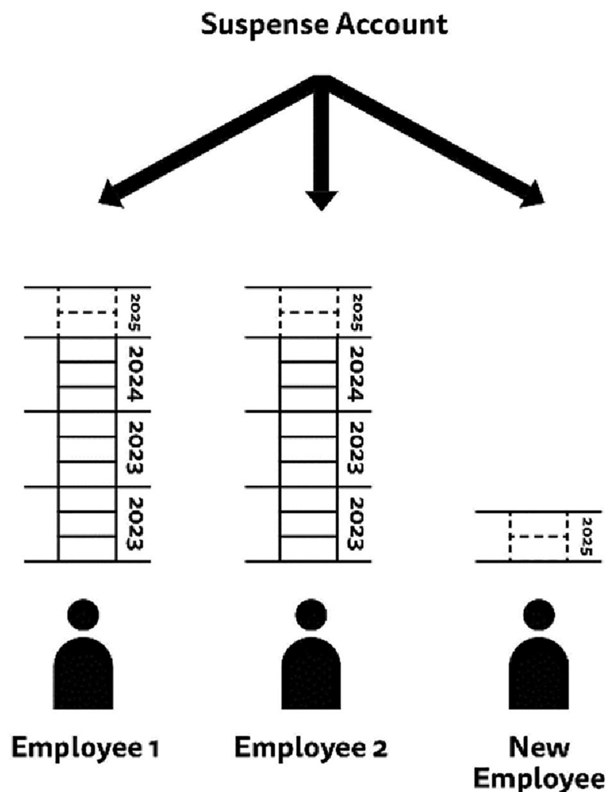

Fig. 6 The redistribution of the repurchase shares

itself, certain features may depend on the culture of the Company and a democratic requirement of the employees.[12] If the Company has more than 10 employees, the practice is that informal democratic elections take place where the employees' representative group is delegated, to actively participate—through experts' guidance—in establishing the rules of the system.

Typically, to minimize the cost and administrative burden, just a few employees (at least 3 but usually more, often the representative group) are founders of the EOC. Once the EOC is registered, all other employees who are eligible for membership can become members by paying in a mandatory share.[13] By paying the mandatory

[12] E.g., the rules on voting, different majorities required for decisions (high majority of 75%+ for decisions to terminate ESOP plan), rules on length of probation period before an employee is eligible to become an ESOP member, the distribution key that determines capital distribution to ICAs, etc.

[13] The mandatory share is a standard obligatory one-time contribution that grants the rights to membership in a cooperative. We should emphasize that mandatory share in European ESOP does not provide claim to capital of the cooperative, but is simply a "ticket" to membership and can be as low as 10€ or 100€. This is decided by the employees or their representatives, who set up the rules of the system. The membership share is not revalued when the Company share value changes (that is the role of the ICAs) and is paid back upon exit.

Table 1 Comparison of US ESOP and European/Slovene features

	US ESOP	European ESOP
Ownership type	Indirect individualized ownership (special-purpose vehicle, individual capital accounts)	Indirect individualized ownership (special-purpose vehicle, individual capital accounts)
Financing mechanism	Pre-tax net income (ESOP contribution by the operating company)	Pre-tax net income (ESOP contribution by the operating Company)
Revolving shares	Pension plan, repurchase liability determines the ESOP contribution, payout upon exit, new employees included only as shares repurchased and recycled	Rollover system, continuously repurchasing based on FIFO method, ESOP contribution determines repurchase liability, new employees continuously included
Governance rights	Trust-based, legal default not participatory	Cooperative based, legal default is democratic representation on the Company board proportional to the amount of shares
Inclusion of employees	Broad based (all employees unless collectively bargained)	Broad based (e.g., 85% for tax incentives)

share, an employee becomes member and receives two sets of rights: voting rights and financial rights (the right to profits and the right to the value of the underlying assets, i.e., shares in the Company, which is indicated by the ICAs).

After the EOC is established, the cooperative proceeds with the purchase of shares from the exiting owner—or any owner that is selling a share of the Company. The recommended valuation for internal buyouts, which use the internally generated capital to purchase the shares, is based on the net asset value (NAV) of the Company. We consider NAV as the most objective value of Company's past financial achievements, the most transparent since it is reported annually and regulated by accounting standards, and the most appropriate, since it is not based on guess estimates of the future profits (that might be used in an arms' length sale to an outside buyer).

The selling owner has two general options of payment of the purchase price: one-time payment and the seller's credit option. If the selling owner insists on a onetime payment, the EOC needs to acquire a loan. The loan can be provided by the Company itself, which can borrow its own cash assets or receives the loan from a bank and lends it over to the EOC. Another option is that the Company guarantees the loan for EOC, which receives it from the bank directly. In either option, the selling owner receives the purchase price immediately. Finally, the owner can decide to be paid out gradually—which is the seller's credit option – in this case, the Company contributes to the EOC on an annual basis, and the cash is used to pay off the owner's note.

In the Slovenian ESOP, which is not yet legislated and is currently in the pilot phase, the most affordable financing option is paying the profits to the EOC as a part owner of the Company. The EOC receives annual contributions, which are taxed once as corporate income at the Company level, and then personal capital income tax is applied to the seller (and in the rollover phase to the employees) when he or she is paid out by the EOC.

As the debt is being paid off—either to the selling owner or to the external creditor -, those amounts are distributed to the members of the Coop-ESOP in accordance with internal rules (distribution key) and the accumulated wealth of their individual capital accounts. The distribution key is the measure of capital distribution to the ICAs in the EOC. It is calculated based on the share of individual wages in total members' payroll, while in some cases tenure was added as the additional criteria for calculating distribution among EOC members.[14]

One of the crucial elements of the European ESOP—and the Slovenian adaptation—is that only current employees are members of EOC. Persons who are no longer with the Company lose their membership, whereas the value of their ICAs is gradually paid out (according to rollover rules) until their personal capital account

[14] The distribution key is usually tied to the wage differences in the Company, but it can also be more equal or completely egalitarian. In the US ESOP, the largest differences within ESOP can be determined by wage differences—the ESOP law proposal that we prepared for Slovenia considers the same limitation. Some of the pilot groups in Slovenia also decided to include the tenure with the Company as the additional variable of the distribution key.

is empty. This is a crucial element that prevents ownership succession problems and keeps the ownership perpetually in the hands of the ongoing generation of employees.

Conclusion

There is a general and objective need for ownership succession tools, and ESOPs have proved themselves as an effective tool for addressing this issue. Owners may also want to reward employees for the past work, motivate them for the future work, they may want to increase employee retention, enhance productivity, improve crisis resilience, or simply help workers and local communities by guaranteeing that their business will remains viable and socially responsible.

In Europe, there has been a lack of a unified front on employee ownership. There is a great diversity of models, some more and some less successful. The purpose of this paper was to isolate the most important structural features of the potential generic European ESOP model, which could be widely adopted at both the EU level and in individual European nation states.

We have also described shortly how the principles behind the European ESOP have been implemented in pilot projects in Slovenian companies. We hope that this will set a trend; already, the model has been recognized by some of the international stakeholders and institutions, and the European ESOP model has served as the basis for the special piece of legislation proposal for Slovenia that is going to be tried with the new government in 2022.

The European ESOP could unify the employee ownership front in Europe. It certainly provides the universal principles for addressing the business succession problem and for including employees in the ownership of profitable companies..

Glossary

"**European ESOP/Cooperative ESOP**"—Employee ownership model based on the US ESOP, which defines generic structural features that can be readily implemented in national settings with minor adaptations.

"**Slovenian ESOP**"—National pilot implementation of the principles behind the European ESOP in Slovenia.

"**Employee Ownership Cooperative (EOC)"**—A counterpart to the Employee Stock Ownership Trust (ESOT) in the USA, that is, a holding entity that holds shares in the name of employees.

"**Individual capital accounts (ICA)**"—Personal accounts in EOC that hold shares in the name of Company employees in the EOC. The ICAs are a version of ownership capital that mimic equity in the way that they "measure" the individualized value of reinvestment for each member. The ICA structure is adopted by ESOPs in the US and Mondragon in Spain.

"Suspense account"—Or transitional account is a capital account in EOC, which holds unindividuated shares—shares that are not yet paid for and hence are not yet distributed to ICAs. The value of a suspense account also indicates the value of the outstanding debt (to owners selling the shares or to a bank providing a loan).

"**Rollover"**—The technical solution to the problems of repurchase liability and accumulation of capital value on ICAs in the US ESOP. It uses cash flow from the Company to constantly purchase the oldest shares on ICAs and distribute them to all the active accounts.

"**Distribution key"**—The criterion for the capital distribution of profits to the ICAs. The distribution key can be egalitarian, based on wage differences, can take into account the tenure at the Company, or the combination of both.

Acknowledgements There are no acknowledgements to be made.

Author's contributions The contributions of the authors were equal.

Funding There are no funding sources to report. No funding was received for conducting this study. There are no financial or non-financial interests involved relative to the paper.

Data availability There is no additional data available for this paper.

Declarations

Ethical standards The paper was prepared according to the ethical standards of the journal.

Informed consent This article does not contain any studies with human participants performed by any of the authors.

References

Basterretxea I, Cornforth C, Heras-Saizarbitoria I (2020) Corporate governance as a key aspect in the failure of worker cooperatives. Econ Indus Democr. https://doi.org/10.1177/0143831X19899474

Bernstein J (2016) Employee ownership, ESOPs, wealth, and wages. Commissioned by the Employee-Owned S Corporations of America.

Blasi J, Kruse D, Weltmann D (2013) Firm survival and performance in privately held ESOP companies. Sharing ownership, profits, and decision-making in the 21st century. Emerald Group Publishing Limited, Bingley, pp 109–124

Blasi J, Freeman R, Kruse D (2016) Do broad-based employee ownership, profit sharing and stock options help the best firms do even better?: Linkages among group incentive methods of compensation. Br J Ind Relat 54(1):55–82. https://doi.org/10.1111/bjir.12135

Blasi J, Kruse D, Freeman RB (2018) Broad-based employee stock ownership and profit sharing: history, evidence, and policy implications. J Particip Empl Ownersh 1(1):38–60. https://doi.org/10.1108/JPEO-02-2018-0001

Blasi J, Kruse D, Weltmann D (2021) The response of majority employee-owned firms during the pandemic compared to other firms. J Particip Empl Ownersh 4(2):92–101. https://doi.org/10.1108/JPEO-09-2021-0014

Bohinc R (2019) Why poor employee ownership progress in the EU? A comparative EU—US overview. In: dr. Rado Bohinc. https://radobohinc.si/en/dr-rado-bohinc-an-eu-approach-to-employee-ownership-progress-a-comparative-eu-us-overview/. Accessed 4 May 2021

Boukhima A, Khallouki T (2022) Employee stock ownership in Morocco: between legal reality and need for evolution. In: Employee share ownership and impacts on organizational value and behavior. IGI Global, Hershey, pp. 146–159. https://doi.org/10.4018/978-1-7998-8557-3.ch008.

Brazda J, Dellinger M, Rößl D (2012) Tax treatment of co-operatives in Europe under the State aid rules. Genossenschaften im Fokus einer neuen Wirtschaftspolitik , Teilband IV: 1091–1104.

Burgess JP (1999) Book review: Stewart Shapiro. philosophy of mathematics: structure and ontology. Notre Dame J Formal Logic 40(2):283–291

European Commission (2016) Entrepreneurship and Small and medium-sized enterprises (SMEs). https://ec.europa.eu/growth/smes_en. Accessed 30 June 2019

Corey R, Case J, Staubus M (2005) Every employee an owner. Really. Harvard Bus Rev 83(6):122–130

Dow GK (2018) The theory of the labor-managed firm: past, present, and future. Ann Pub Cooper Econ 89(1):65–86. https://doi.org/10.1111/apce.12194

EFES (2019) Employee Share Ownership: European Policy. European Federation for Employee Share Ownership.

Ellerman D (2020) On some alleged “problems” and alleged “solutions” in democratic firms. J Particip Empl Ownersh 3(2/3):135–147. https://doi.org/10.1108/JPEO-04-2020-0012

Ellerman D, Stiglitz J (2001) Not poles apart: ‘Whither Reform?’ and ‘Whence Reform?’ J Pol Reform 4(4):325–338. https://doi.org/10.1080/13841280108523424

Ellerman D, Gonza T (2020) A Generic ESOP: Employee Share Plan for Europe. European Federation for Employee Share Ownership. https://www.academia.edu/44213460/A_Generic_ESOP_Employee_Share_Plan_for_Europe. Accessed 19 Feb 2021

Fizi A (2013) Pan-European cooperative law: Where do we stand? Euricse. https://www.socioeco.org/bdf_fiche-document-4018_en.html . Accessed 2 Nov 2021

Frega R (2020) Employee involvement and workplace democracy. Bus Ethics Q. https://doi.org/10.1017/beq.2020.30

Furubotn EG, Pejovich S (1970) Property rights and the behavior of the firm in a socialist state: the example of Yugoslavia. J Econ 30(3):431–454

Hübner JA (2020) Owning up to it: why cooperatives create the humane economy our world needs. Faith and economics. https://www.academia.edu/53831514/Owning_Up_to_It_Why_Cooperatives_Create_the_Humane_Economy_our_World_Needs. Accessed 4 Mar 2022

Jarboui A (2013) ESOPs, CEO entrenchment and corporate social performance. Int J Bus Econ Res 2(6):116

Kim EH, Ouimet P (2014) Broad-based employee stock ownership: motives and outcomes: broad-based employee stock ownership. J Financ 69(3):1273–1319. https://doi.org/10.1111/jofi.12150

Kruse D (2016) Does employee ownership improve performance? IZA World Labor. https://doi.org/10.15185/izawol.311

Kruse DL, Freeman RB, Blasi JR (2010) Shared capitalism at work: employee ownership, profit and gain sharing, and broad-based stock options. University of Chicago Press

Kurtulus FA, Kruse DL (2107) How Did Employee Ownership Firms Weather the Last Two Recessions? Employee Ownership, Employment Stability, and Firm Survival: 1999–2011. W.E. Upjohn Institute. https://doi.org/10.17848/9780880995276

Lombardozzi L, Cozzolino A (2019) European Economic Democracy A new path out of the crisis. https://www.academia.edu/39727140/European_Economic_Democracy_A_new_path_out_of_the_crisis. Accessed 30 Aug 2021

Lowitzsch J, Hashi I (2014) the promotion of employee ownership and participation. European Union.

Močnik D, Duh M, Crnogaj K, et al (2019) Slovenska Podjetnška Demografija in Prenos Podjetij: Slovenski Podjetniški Observatorij 2018.

Mygind N (2012) Trends in employee ownership in Eastern Europe. Int J Hum Resour Manage 23(8):1611–1642

Mygind N, Poulsen T (2021) Employee ownership—pros and cons—a review. J Particip Empl Ownersh 4(2):136–173. https://doi.org/10.1108/JPEO-08-2021-0003

Nuttall G (2019) Sharing success: the Nuttall review of employee ownership. Great Britain: Minister for Employment Relations, Consumer and Postal Affairs.

Pencavel J (2001) Worker Participation: Lessons from the Worker Co-Ops of the Pacific Northwest. New York: Russell Sage Foundation. https://books.google.si/books?id=GqE80Cz3Il8C&hl=sl.

Rosen C, Quarrey M (1987) How well is employee ownership working? Harvard Business Review, 1 September. https://hbr.org/1987/09/how-well-is-employee-ownership-working. Accessed 8 Sept 2022

Sahasranamam S, Arya B, Sud M (2019) Ownership structure and corporate social responsibility in an emerging market. Asia Pacif J Manage. https://doi.org/10.1007/s10490-019-09649-1

Schiefer J, Überwimmer M, Füreder R et al (2019) Obstacles and challenges of business succession in central Europe. J Int Bus Res Mark 4(5):24–29. https://doi.org/10.18775/jibrm.1849-8558.2015.45.3004

Smith S, Burt S (2009) Partial ESOP Terminations Present Unique Issues. J Empl Ownersh Law Finance 21(3):3–12

Stranahan S, Kelly M (2020) Ownership design for a sustainable economy. Fifty by fifty. https://www.fiftybyfifty.org/2020/01/ownership-design-for-a-sustainable-economy/. Accessed 16 Feb 2021

Wu SJ, Paluck EL (2020) Having a voice in your group: Increasing productivity through group participation. 27 April. PsyArXiv. https://doi.org/10.31234/osf.io/vm4hu.

Springer Nature or its licensor (e.g. a society or other partner) holds exclusive rights to this article under a publishing agreement with the author(s) or other rightsholder(s); author self-archiving of the accepted manuscript version of this article is solely governed by the terms of such publishing agreement and applicable law.