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An assessment of employee ownership in the United States with implications for the EU

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Abstract

The United States has developed a varied and widespread employee ownership sector. This sector has two distinct sub-sectors, the public stock market and small privately-held firms. There is a significant gap in the incidence and development of employee ownership between the European Union (EU) and the US when both sectors are examined. Socioeconomic system differences between the EU and the US suggests that EU employee ownership will be more likely to develop if the EU expands citizen

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will use the pull model of employee ownership where the firm never makes the extreme commitments of cultural transformation that are necessary to drive better corporate performance. We expect that the push model of employee ownership will continue to be the basis of a more “utopian” image of employee ownership. The pull model of employee ownership is based on the notion that the structure of compensation has changed in modern society and corporations are increasingly looking for ways to provide modest fix wage commitments and pay AFTER performance has taken place. The collapse of the fixed wage system plays a key role in the emergence of employee ownership in the US. Research on the wealth effects of employee ownership supports the perception that employee ownership firms are more generous. It is only this evidence that creates the basis of broad public support of the idea. This last observation helps explain why employee ownership has become so popular in the United States despite the fact that it violates a common precept of investment, namely, that a diversified basket of investments are the most rational market investment. Too much US employee ownership was “bogus employee ownership” based on workers purchasing stock with their savings. To the extent the EU wants to learn about employee ownership from the US, it should not imitate these mistakes.

Keywords:

Employee ownership

broad-based stock options

Employee Stock Ownership Plans (ESOPs)

profit sharing

corporate governance

unions

small business

family businesses

European Union

Notes

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