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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. Socioeconmic system differences between the EU and the US suggests that EU employee ownership will be more likely to develop if the EU expands citizen participation in its public stock markets and creates legislative support for selling smaller family businesses to employees. Second, US employee ownership is deficient in direct employee participation in corporate governance. If employees are to have reasonable rights to protect their investment risk, the US will have to converge with the EU in terms of its appreciation of the co-determination rights of workers. The development of employee ownership in the US can be better understood by

appreciating the subtleties of how the argument that ownership causes superior performance of employee owned firms is presented. Most employee ownership firms 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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