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MODEL PLANS

Employee share ownership, what is it? Employee share ownership is when employees hold a stake in the capital of the company that employs them. It starts with one employee holding one share and can extend up to 100% held by all employees.

In the simplest form, an employee can use part of his or her savings to buy shares in his or her company. Or a person creates a company to which he or she contributes capital and becomes an employee. Beyond such individual steps, it can become a "plan" that systematically arranges employee participation in the company's capital.

A small number of model employee share ownership plans exist around the world (but with many variations depending on the specific legislation of each country). These plans are more or less adapted to startups (or micro-enterprises) or to SMEs or large companies.

There are about 25 million companies in Europe with 150 million employees. These include 23 million micro-enterprises with 0–9 employees, 1.5 million small companies with 10–49 employees, 250,000 medium-sized companies with 50–249 employees, and 50,000 large companies with 250 or more employees (of which 2,500 are publicly traded). Micro-enterprises, SMEs, and large companies each employ more or less one-third of the total workforce, both at a European level and within each country.

Like corporate ownership in general, employee share ownership plans can be divided into two main categories: individual direct and collective indirect:

Plans	Where	Ownership	
		Individual direct	Collective indirect
1. Employee Share Purchase Plan (ESPP)	World	X	
2. Stock Options	World	X	
3. Free Share Awards	World	X	
4. Workers Co-operative	World (IT/ES/FR/UK)	X	
5. ESOP Plan	USA		X
6. Employee Ownership Trust (EOT)	UK/USA/+		X
7. Sociedades Laborales	Spain	X	
8. FCPE de reprise	France	X	
9. SCOP d'amorçage	France	X	

Individual direct employee share ownership is the most traditional and familiar form. To achieve this, the employee uses part of his or her savings or financial resources to buy shares in the company, thus assuming a personal risk. This is possible under various types of plans. This category of employee share ownership plans is virtually the only one of its kind in continental Europe.

Collective indirect employee ownership is very little practised in Europe, except in the UK. This explains why employee share ownership in Europe is almost non-existent in SMEs, and why it is almost unknown outside large companies. Indeed, SMEs generally avoid increasing their shareholder numbers, whether or not they are employees. They are only forced into it when they become larger. On the other hand, one particular phase may trigger the desire for new shareholders: Business transmission. That is why this is the best time to introduce employee ownership in SMEs. Collective indirect ownership is the most suitable form for transferring a company to employees. Plans within this category (ESOP, EOT) have been designed for this purpose. They allow employees to acquire ownership of their company, often 100%, without having to use up their savings or personal finances, therefore without personal risk.
Collective indirect employee ownership plans (ESOPs, EOTs) facilitate the transfer of companies to employees, which individual direct schemes can only achieve with great difficulty and expense, as employee savings are usually not up to the task.

1 - Employee Share Purchase Plan

The employee share purchase plan is the most common employee share plan in large companies worldwide. Employee participation is usually encouraged by a discount of 20 to 30% on the market price, with the shares being unavailable for sale for 2 to 5 years. In France, this unavailability is usually organised through a dedicated investment fund, a *Fonds Commun de Placement d'Entreprise* (FCPE).
In Europe, one in every two large companies periodically and routinely organises share purchase plans for all employees. On average, the employee uptake rate is nearly 40% in France, with nearly one employee in two in large companies.

2 - Stock options

The stock option allows you to defer the purchase of shares over time, at a price fixed in advance. The option becomes a share when the purchase is actually exercised. This variant of the simple stock purchase plan serves a wide range of purposes.

- In Europe, we are familiar with stock option plans for managers and executives, which are common in most large companies, but also in many smaller ones.
- Recently, several European countries have adopted measures to encourage the use of stock options in startups. The most impressive example is the United Kingdom, with the *Enterprise Management Incentive* scheme launched in 2000 to facilitate the recruitment and retention of "talents" in SMEs. After 20 years of this scheme, it has been found that almost 70% of the shareholders of SMEs are none other than the employees of these SMEs, holding up to 20, 30% and more. However, this only concerns a fringe of about 10% of SME employees, mostly managers and executives.
- In some European countries, employee share plans are not **share purchase plans** but **option purchase plans**. Similarly, one of the two most popular employee share plans in the UK for large companies (the SAYE plan) is for employees to save for 3, 5 or 7 years before being able to exercise their stock options at the end of the period.

3 - Free shares awards

Like stock options, the distribution of free shares to employees is widely used in large European companies, in various forms.

- Generally subject to performance conditions, they form an element of compensation for executives and managers, sometimes replacing stock options.
- The distribution of free shares is one of the three modalities of the SIP plan, the most popular employee share plan in large companies in the UK. Similarly, in France, the number of free share allocations for all has increased in large companies.
- The distribution of free shares to all employees tends to become widespread in Europe during IPOs.

4 - Workers' cooperative

Historically, workers' cooperatives are the first form of employee share ownership, since it dates back to the first half of the 19th century. It is still one of the few benchmarks.

By imitating shareholders of an ordinary capitalist enterprise, it is the employees here who invest part of their savings. They hold at least 51% of the shares, often alongside other investors. Frequently, the "one man, one vote" principle of governance is preferred to the "one share, one vote" rule.

In Europe, the bulk of employee ownership in SMEs is concentrated in workers' cooperatives. These companies have some 750,000 employees, including 500,000 employee owners. However, the workers' cooperative sector is only significant in Italy, Spain (with the Mondragon Group in particular) and France. In each of the other European countries, workers' cooperatives number only a few dozen units at most.

Throughout Europe, there is a decline in the number of large workers' cooperatives.

On the other hand, the attraction of the workers' cooperative when creating a company cannot be denied – on the contrary – for its simplicity and flexibility, as well as belief in its efficacy.

5 - ESOP Plan

The ESOP or *Employee Stock Ownership Plan*, quite simply "the" employee stock ownership plan, conceived in the United States almost a century ago, is in a way the father of all plans. It takes many forms, with the acronym "ESOP" being used indiscriminately all over the world, leading to a lot of confusion.

The focus here is on the *leveraged* ESOP. This aims to organise the transfer of businesses to employees, at 15, 30% or more, often gradually, and generally at 100%. The funding does not come from the employees themselves, but from elsewhere.

To make this possible, a second legal entity is created alongside the company to hold the shares or ownership on behalf of the employees. This dual structure makes it possible to buy the company on behalf of the employees via external financing, without the employees bearing the financial risk.

Legally, the set-up is therefore a little more complex than that of individual direct ownership. In fact, it is much simpler since it makes possible what would otherwise be impossible, the transfer of the company to employees.

The legal entity holding the property is a not-for-profit organisation, generally a trust in Anglo-Saxon countries, or in continental Europe a private foundation, which allows it to benefit from preferential tax treatment.

Even if the trust is the owner of the shares, the rights to governance and to share in the results can be individualised. Thus, employees can be involved in the governance of the company, often even with the "one share, one vote" rule practised in many cooperatives.

The ESOP was introduced into US law in 1974. By accident, this legislation gave it the form of a pension plan, which is probably a major reason for its success. No other form of employee ownership in the world has been as successful, as well known, as observed, and as analysed.

6 - Employee Ownership Trust

The *Employee Ownership Trust* was introduced in the UK by legislation in 2014.
Inspired by the ESOP plan and with the same objective of facilitating the transfer of businesses to employees, it is however much simpler.
With the ESOP, the EOT scheme shares the dual construction, allowing employees to buy the company through external financing without bearing the risk.
However, it does not include the pension arrangement or the process of individualising the ownership of the company's shares, which are features of the ESOP.
Nevertheless, as in the ESOP model, even if the trust is the owner of the shares, the rights to governance and to share in the results can be individualised.
Thus, as with the ESOP plan, employees can be involved in the governance of the company, often even with the "one share, one vote" rule practised in many cooperatives.
Since its introduction in 2014, the number of EOTs has continued to grow. Today in Great Britain, one in twenty business transfers is made to employees, about one per day, with an average size of 80 employees.
The Employee Ownership Trust arrangement is also spreading in the United States as an alternative to the ESOP, as well as in the rest of the world.

7 - Sociedades Laborales

A Spanish plan that originated in the economic depression under General Franco's regime. The first case followed the bankruptcy of the Valencia bus company. The company was taken over by its more than 3,000 employees in the mid-1960s. From then on, cases involving corporate rescues multiplied, with a sophisticated model of structure and shareholder rights such as those usually seen only in large companies.
After the death of General Franco, Spain bounced back. Requests for company rescues diminished. The promoters of the *sociedades laborales* therefore proposed a conversion to business creation. It was a great success, and came with original public financial support, the "activation" of unemployment benefits: unemployed people who set up their own *sociedad laboral* received the equivalent of two years of benefits, enabling them to capitalise their company. In a few years, there were more than 20,000 companies in 2006, with 130,000 jobs, with an average of 6–7 employees. Paradoxically, this model designed for large companies found success in micro-enterprises.
The crisis hit in 2008. The cumbersome nature of the model meant that it was not possible to meet the recapitalisation needs of *sociedades laborales* facing difficulty. In addition, the unemployment benefit activation scheme was extended to other forms of business creation, and the *sociedades laborales* suddenly lost their special appeal. In just a few years, the number of *sociedades laborales* has fallen by 60%, the number of jobs has been halved and the number of *sociedades laborales* creations is now thirty times lower than previously.

8 and 9 - FCPE de reprise and SCOP d'amorçage

Two French attempts to organise the transfer of businesses to employees on the basis of individual direct share ownership. The *FCPE de reprise* was introduced in France by legislation in 2006, while the *SCOP d'amorçage* evolved from the Hamon Law in 2014.
At the end of 2021, there have been three cases of *FCPE de reprise* in France in fifteen years, and one case of a *SCOP d'amorçage* in seven years. The numbers speak for themselves.