

5 Old school meets new

Global efforts to promote cooperative principles through modern employee-buyout innovations

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1 Introduction

Throughout history, worker cooperatives have stood uncontested as the dominant form of broad-based employee ownership¹ (EO) in the context of private market economies (CICOPA, 2005), where EO designates a type of ownership structure that ties ownership rights – profit, capital value, and governance rights – to the current generation of workers in the firm. The roots of the cooperative movement are deeply intertwined with the principles of EO, and the two concepts share a rich historical connection (see Kaswan, this volume, Ellerman & Gonza, Handbook). In many countries, worker cooperatives remain the only systematically regulated form of EO (Travisani & Cordova, this volume), and globally, they continue to be a common type of employee-owned business by a significant margin (Pérotin, 2016; Lomuscio et al., 2023; CG Scop, 2025). However, worker cooperatives are neither the only model of EO nor the fastest-growing one (Emms and Goodman, 2024).

Since the second half of the 20th century, Anglo-American countries have seen the rise of EO models with distinct cultural-ideological backgrounds, purposes, and implementation methods: the Employee Stock Ownership Plan (ESOP) in the United States and the Employee Ownership Trust (EOT) in the United Kingdom and Canada. One of the key differences between these models and worker cooperatives is that ESOPs and EOTs are not principally used to build employee-owned businesses from scratch. Rather, they are a type of mechanism employing financial leverage to convert conventional businesses into EO businesses. Another key distinction lies in the type of ownership these models are designed to establish and maintain. While ESOPs and EOTs provide employees with economic rights – that is, the right to profits and, in the case of US ESOPs, also the right to book value – they do not by default grant workers participation in governance (Kaswan, 2022; Magowan, 2010; Van Doel and Howell, 2022). This stands in contrast to worker cooperatives, which normally operate on a one-member-one-vote system of governance (NCEO, 2025).

The success of ESOPs and EOTs has been largely attributed to two key structural features: leveraging the target company's available cash flow to finance the buyout and employing a separate legal entity (a trust) as the ownership vehicle for employees (Gonza et al., 2024). These mechanisms – coupled with preferential

tax treatment – have allowed ESOPs and EOTs to rapidly expand EO by establishing a flexible and cost-effective framework for the conversion of profitable companies – without depending on a strong supportive ecosystem.

The numbers speak for themselves. Today, the United States has over 6,500 ESOPs (5,925 private companies and 433 publicly traded companies), employing around 14.9 million workers – roughly 10% of the private sector workforce, where majority employee-owned ESOPs employ a smaller but still impressive number of 2.5 million workers (NCEO, 2025). In the United Kingdom, the EOT model has gained significant traction since its introduction, especially after receiving favorable tax treatment in 2014. Studies suggest it is now the second most popular business succession tool in the United Kingdom, with approximately one company transitioning to an EOT every day (Emms and Goodman, 2024).

In contrast, the worker cooperative movement has, with few exceptions, struggled to develop scale-up strategies capable of significantly shifting ownership patterns in most economies. While worker cooperatives remain numerous in some areas, this is often associated with the presence of strong cooperative ecosystems – many of which took centuries to develop or emerged under specific political and historical conditions (Molina and Miguez, 2008; Warren, 2024; Zamagni and Duda, 2016). However, recent developments indicate growing interest in leveraging ESOP and EOT mechanisms to expand cooperative ownership in market economies with limited state intervention. These initiatives, ranging from legislative proposals to exploratory discussions, have, curiously, emerged almost simultaneously across various parts of the world – particularly in Europe (Duverger and Sente, 2024; GOV.SI, 2024; Hulgård et al., 2022). This can be explained by shared challenges, such as a generalized SME succession crisis, and the current lack of socially sustainable solutions to address them (Walsh, 2024; Storbeck, 2018; Darbon, 2025).

This chapter aims to map several of these initiatives in three countries of the Global North: the United Kingdom, Germany, and Slovenia. It intends to identify the driving forces and motivations behind business conversions in the three countries and explore the roles played by established actors in both the worker cooperative movement and the ESOP/EOT ecosystem. The goal is to uncover commonalities and potential points of friction between these two worlds, as well as to assess the prospects for synergies that could drive the scale-up of cooperative ownership in businesses, interpreted broadly.

The first section provides a comparative analysis of worker cooperatives and the ESOP/EOT models, offering contextual background. The second section presents an overview of early explorations into hybrid models of EO, linking traditional worker cooperatives with modern employee buyout (EBO) mechanisms. This includes cases of practical implementation, offering a high-level overview of attempts to apply cooperative values to modern EO models, and vice versa. An assessment is then carried out regarding the extent of their alignment with cooperative principles, particularly the principle of member (typically employee) participation, as espoused by the ICA and the Mondragon cooperative principles. Before

concluding, three case studies – the United Kingdom, Germany, and Slovenia – are presented to illustrate ongoing efforts and challenges in this domain.

2 Worker cooperatives vs ESOP/EOT ecosystem: a short comparative analysis

This section provides an overview of the concepts of worker cooperative and ESOP/EOT and their respective ecosystems, identifying their main differences and points of overlap – from a historical, ideological, and practical perspective.

2.1 Worker cooperativism

Worker cooperativism, the most ideal form of EO, is a concept that fundamentally extends beyond ownership. As a subset of cooperativism, it establishes principles that shape decision-making, corporate behavior, and the distribution of rights among worker-owners (Gonza et al., 2024). “True” cooperative businesses are not only worker-owned but also democratically governed according to the one-member-one-vote principle; they uphold open membership, mutual solidarity, and education promotion (ICA, 2025).

Worker cooperatives emerged as part of the labor movement. In Europe they were also championed by Catholic movements (through economic theories such as distributionism) – particularly following the publication of Pope Leo XIII’s 1891 encyclical *De Rerum Novarum*, which criticized unbridled capitalism and advocated for the creation of “societies for mutual help” and “workingmen’s unions” (see Chapter 1 by Kaswan et al. above; Hubner, 2020; Leo XIII, 1891; Schultze, 2001). From their inception, the worker cooperative movement has had a strong communitarian element, emphasizing the importance of worker self-organization. One of the earliest known efforts to codify cooperative principles was the Seven Rochdale Co-operative Principles, established in 1844. These principles have since guided the global cooperative movement, with the International Cooperative Alliance (ICA) officially adopting them in 1937 and refining them in 1966 and 1995 (Patmore and Balnave, 2018; ICA, 2025). These values reflect the grassroots nature of the cooperative movement, which emerged as a means for workers to uplift themselves from economic insecurity through the practice of mutualism, establishing collaborative work environments, and reliable social safety nets. Especially under conditions of economic hardship and social exclusion, worker cooperatives have long served as a bottom-up tool for marginalized groups to create decent work and life conditions (Camargo et al., 2021; Kwapong and Hanish, 2013). Today, even as mainstream cooperative ideology has lost much of its initial disruptive impetus, cooperative principles are still enforced through mechanisms such as mutualistic funds – financed by mandatory contributions from cooperatives – and representation by cooperative federations and political organizations (Warren, 2022a; Hoyt and Menzani, 2012).

While most worker cooperatives are founded from scratch, there are also many cases of conversions to cooperatives through EBOs. Among the best-known models

for EBOs through worker cooperatives is the Italian Marcora Act framework, within which around 400 EBOs have been carried out (see Bigi et al in this volume), as well as the “pago único” system in Spain and Cooperative and Participative Societies (sociétés coopératives et participatives – SCOPs) conversions in France (Gonza et al., 2021; Vieta et al., 2017). These models proved particularly well suited for enabling workers of businesses facing closure to mobilize and buy them, helping to save jobs and minimizing harm for the local community.

In some countries (Argentina, Uruguay, Greece, and others), cooperatives are commonly created as worker-recuperated enterprises (WREs), often employing quasi- or extra-legal methods rooted in struggle (Olsen, 2013; Vieta, 2013, Heras and Vieta, 2020). The best-known examples of WREs are the *empresas recuperadas* in Argentina and Uruguay, where workers occupy and take over the operations of failing businesses in response to mass layoffs and/or unpaid back wages. As argued by Monni et al. (2017), EBOs and WREs based on worker cooperatives both arise from processes in which workers either negotiate with or enter into conflict with the (exiting) owner, respectively. By their very nature, both can be described as primarily worker-led processes.

In market economies, EBOs are often seen as the most promising pathway to expanding EO. This is because they become viable when an existing owner is ready to step away and when the company already has an established internal structure and culture (Olsen, 2013). However, cooperative conversions in the context of profitable companies, especially in business succession settings, remain rare and mostly limited to the service sector, where employees are more likely to be able to finance the buyout themselves due to the higher average salaries (European Commission and European Investment Bank, 2025).

The lack of effective conversion mechanisms has been one major reason why cooperatives have not managed to become a prevalent organizational form in market economies (Gonza et al., 2024), despite them generally presenting competitive advantages and producing positive externalities (Pérotin, 2012; Albanese, 2024; Preluca et al., 2022). Historically, there have been periods of significant growth in the number of worker cooperatives, but these instances do not point to a replicable model, as they have typically been confined to specific political and social contexts, often characterized by heightened class consciousness.

2.2 *ESOPs and EOTs*

The very first ESOP was established in 1956 at Peninsula Newspapers Inc., a newspaper publishing company, to facilitate the transfer of ownership to employees following the retirement of its two founders (Menke and Buxton, 2010). EO models such as ESOPs and EOTs stem from a radically different context compared to worker cooperatives. The ESOP model was first promoted in 1950s America by lawyer, economist, and political theorist Louis O. Kelso as a way to extend the benefits of the postwar economic boom to a broader segment of the population.

The transformative aspect of the ESOP model lies in its ability to solve the primary challenge traditionally associated with EBOs: financing the transaction. By

establishing a separate legal entity – a trust – which serves as the ownership vehicle, and utilizing financial leverage, the model enables *all* workers to gradually acquire ownership without requiring them to invest personal savings or, importantly, to put their often limited assets at risk. Because ESOPs and EOTs grant ownership to employees through a separate legal entity, EO established through these models can be partial (Gonza et al., 2024). The EOT can be described as a profit-sharing (PS) scheme, since employees, in their role as owners, are granted only profit rights (Ellerman and Gonza, 2024). In contrast, the US ESOP provides employees with both profit distribution and capital appreciation rights. The latter is achieved through individual capital accounts (ICAs), where shares are allocated to each employee. Shares are bought back by the ESOP trust once the employee leaves the company (Gonza, 2025; Rosen et al., 2025).

Despite being vehicles through which employees acquire ownership rights, ESOPs and EOTs are, in many regards, more akin to employee benefit schemes. Firstly, with these models, it is the current owner (the seller) who unilaterally decides whether a buyout will be carried out and thus whether EO will be established (Gordon and Pound, 1990; Pendleton and Robinson, 2025). Unlike cooperative-based EBOs or WREs, where workers initiate and lead the transition, ESOP and EOT conversions are generally owner-driven. Even after an ESOP or EOT is established, employees typically are not substantially involved in the decision-making process by default. Instead, it is the owner who appoints a trustee, who then acts as shareholder of record (Kaswan, 2022).

The ideological foundation of the ESOP model is grounded in the idea that the market economy does not offer sufficient wealth-building opportunities for the working class (Kelso and Adler, 1958, p. 62). The ESOP model helps to bridge that gap by leveraging workers' collective capacity to produce a surplus. However, while Kelso's writings convey a clear ambition to share the fruits of capitalism with the wider population by promoting predistribution of wealth, achieving this goal through ESOPs did not require grassroots movement-building (Kelso, 2017). Instead, the primary aim was to persuade existing economic and political power-holders to embrace a vision of participatory capitalism. It was also an effort that remained detached from wider labor movement struggles, with Kelso envisaging a future of "universal capitalism" in which unions would primarily serve to promote EO (Ellerman, 1985). The rhetoric surrounding the emergence of ESOPs aligned with an approach to wealth distribution that exalts and empowers the individual producer rather than fostering collective power (Logue and Yates, 1999). Worker participation in decision-making was also not of great interest to Kelso, who was rather wary of handing decision-making power to "amateur management". Timid steps toward employee participation in ESOPs were also firmly rejected by the US Congress (Forman, 1977).

In the United States, ESOPs gained political traction through Kelso's direct advocacy efforts, particularly his success in persuading Democratic Senator Russell B. Long, who later spearheaded the effort to enshrine ESOPs into law. This culminated in the passage of the Employee Retirement Income Security Act (ERISA) in 1974, which, along with subsequent legislation, regulated ESOPs and

made them a tax-efficient succession solution – leading to their widespread adoption (Rosen et al., 2025). It should be noted, however, that shortly after their legal establishment, ESOPs began to also be used by trade unions as bargaining tools for securing EO in exchange for wage reductions and other concessions (Blasi, 1988). Today, support for ESOPs crosses traditional political lines, receiving endorsement from politicians across the spectrum, including figures on the left, such as Bernie Sanders, and on the right, such as Marco Rubio (The ESOP Association, 2024).

In the United Kingdom, the EOT model was enshrined in law in 2014 by the Conservative-Liberal Democrat coalition government, following the publication of the government-commissioned *Nuttall Review of Employee Ownership*, authored by leading expert Graeme Nuttall OBE (Warren, 2022b). The model drew heavily from the trust-based EO structure of the John Lewis Partnership, which had existed since 1929 (Rosen, 2023). The renewed interest in EO that led to the adoption of the EOT model coincided with the “Big Society” initiative promoted by the same government, which aimed to strengthen the role of the voluntary sector, social enterprises, and other social and solidarity economy entities during a period marked by deep austerity policies and public sector reform (Cabinet Office, 2010; Staniszewski and Nurcombe, 2024; Warren, 2022a). Although EOTs were first introduced by a conservative-led government, just like in the United States, they are now supported across the political spectrum (Monaghan, 2024). The EOT’s widespread implementation can largely be attributed to the desire of selling owners to preserve their legacy (Parkes, 2020), further encouraged by the favorable tax treatment granted to them compared to other forms of business transfer (Pendleton et al., 2023).

As the ESOP and EOT communities have expanded, they have also established their own representative organizations, such as the ESOP Association in the United States and the Employee Ownership Association (EOA) in the United Kingdom. These communities convene at national and even international gatherings, such as the annual Oxford Symposium. However, they have arguably not coalesced into a movement in the same way the worker cooperative sector has. In this sense, EO companies under the ESOP and EOT frameworks exhibit a higher degree of atomization, generally behaving more like conventional businesses. They typically do not engage in mutualist practices and are not guided by a common set of principles to the same extent as worker cooperatives – or cooperatives more broadly – are (Blasi et al., 2024) (Table 5.1).

3 Bridge builders: practical and theoretical attempts to connect the two worlds

As a transformative mechanism for EO, the ESOP model quickly attracted the attention of advocates for cooperative and democratic EO, sparking discussions on the feasibility of a democratic ESOP (Ellerman, 1985; Kaufman, 1989). Early efforts to establish ESOPs with participatory governance structures were often led by trade unions, which saw ESOPs as a tool for negotiating ownership transfers to workers in collective bargaining agreements (Rothschild-Whitt, 1985). However, in most cases where ESOPs have incorporated worker participation in decision-making,

Table 5.1 Comparing worker cooperatives with ESOPs and EOTs

	<i>Historical Origins</i>	<i>Implementation Model</i>	<i>Financing</i>	<i>Governance Structure</i>	<i>Ecosystem Characteristics</i>
Worker Coops	1840s England, spreading internationally; developed within the labor and communitarian movements, often as a response to economic insecurity.	Typically, bottom-up, worker-led formation, predominantly <i>ex-nihilo</i> , but also through EBOs (mostly in companies in distress).	Cooperative conversions often rely on strong institutional support and financing, sometimes requiring workers' contributions	Democratic one-member-one-vote decision-making; egalitarian ownership structure; workers are members/cooperators.	Strong collective identity and shared cooperative values; rooted in solidarity and mutual aid.
ESOPs/ EOTs	ESOPs: 1950s United States; conceived as a means to broaden access to the benefits of postwar economic growth; alternative to state redistribution; enshrined in US law in 1974 through ERISA Act. EOTs: inspired by the John Lewis model; enshrined in law through 2014 Finance Act; introduced by the UK Conservative-Liberal Democrat coalition government; consistent with "Big Society" ethos.	Typically, top-down, owner-initiated transitions, most adopted by profitable companies.	Leveraged financing; acquisition debt is paid off with the projected cash flows of the operating business.	Ownership does not automatically confer governance rights; governance participation depends on plan structure and design.	Representation-focused organizations (EOA, ESOP Association) with weaker ideological coherence; more pragmatic orientation.

they have done so by introducing a one-share-one-vote governance model rather than a one-member-one-vote one (Ellerman, 1985). This tends to favor higher-earning employees, as share distribution formulas in ESOPs tend to distribute shares in proportion to employee compensation (Logue and Yates, 2000).

There are, nevertheless, notable exceptions. One early example of ESOP democratization was Rath Packing Co., a company based in Waterloo, Iowa, which transitioned to an ESOP structure in 1981, adopting a one-member-one-vote governance model. This transfer was driven by demands from the United Food and Commercial Workers Local 46 union, which sought EO as a response to significant wage and holiday reductions (Redmon et al., 1985). Although Rath Packing Co.'s experiment with democratic governance was short-lived, it introduced the "two-tiered scheme" to uphold democratic decision-making (Ellerman, 1985). Under this model, workers voted on all shareholder matters, and the trustees were required to align their votes with the will expressed by employees. In addition, the trustees themselves were democratically elected by the workforce. Given the legal uncertainties surrounding direct worker control under ESOP legislation, the "two-tiered scheme" emerged as the predominant approach for democratizing ESOPs and EOTs. Several companies have since embraced the concept of a democratic or cooperative ESOP, and it has been proposed by some as a model worthy of broader support (Ellerman, 1985; Ellerman et al., 2022; Kaswan, 2022; Kerr, 2015; Rosen et al., 2025). However, it has been questioned whether such arrangements within trust-based models could withstand legal and regulatory scrutiny if formally challenged (Ellerman, 1985).

The first institutionalized model for building cooperative ownership that vaguely resembles the ESOP model is Quebec's worker-shareholder cooperative (*coopératives de travailleurs actionnaire*), introduced in 1984. Like the ESOP model, its primary objective is to enable workers to gradually acquire a stake in their company through a separate legal entity that holds shares on their behalf (Montambault and Cholette, 2018; Duverger and Sente, 2024). Nevertheless, it falls short of providing an equally effective financing mechanism, as it requires workers to fund the buyout through payroll deductions (Desjardins, 2024). Possibly for this reason, its adoption has remained limited.

In recent years, significant attention within EO circles has been drawn to the work of the Slovenian-based Institute for Economic Democracy (IED), which has sought to promote an ESOP-inspired model through a special purpose workers' cooperative in Slovenia. Building on concepts developed by Ellerman et al. (2022), IED has implemented this model in four Slovenian companies and played a key role in assisting the Slovenian government in developing supportive legislation. On October 23rd, 2025, the Slovenian Parliament passed the Employee Ownership Cooperative Act (*Zakon o lastniški zadrugi delavcev*) (GOV.SI, 2025), which enshrines IED's model into law and introduces tax incentives to support its adoption. The model builds on the success of ESOPs – preserving the features believed to be most critical to their effectiveness – while introducing a one-member-one-vote governance system, along with other innovations (Gonza, 2025; Rosen et al., 2025).

Following Slovenia’s approach, the idea of a hybrid model has recently been explored by the French General Confederation of Producers’ Cooperatives (*Confédération générale des Scop – CG SCOP*), which is considering using the so-called “law no. 47 cooperative” to facilitate ESOP-like transactions for democratic ownership (Duverger and Sente, 2024; Sente and Mackin, 2025). Additionally, the *Asociación Empresarial ASLE* from Spain has begun exploring the possibility of using the “pago único” framework in a similar way, by using the labor society (*sociudad laboral*) legal entity as a holding vehicle to facilitate EBOs (rather than engaging in direct conversions) and to mimic some of the structural features of the Slovenian ESOP model to ensure sustainability of EO. Another European country currently exploring this model is Denmark, where the government has been working on a law to introduce a democratic EOT (Hulgárt et al., 2022).

Alongside these institutional efforts, isolated cases of real-world implementations are emerging in different parts of the world, offering valuable insights that can inform broader adoption. The following section presents three case studies – the United Kingdom, Germany, and Slovenia – where modern EBO innovations have been adopted to build cooperative ownership.

4 Case studies

4.1 *Employee ownership trust in the United Kingdom*

The UK’s most popular form of EO is no doubt the EOT. One of the main motivators for the rise of the EOT in the United Kingdom has been legislation creating tax incentives for EOT business conversions, which have been in place since 2014. EOTs rely on a special purpose vehicle (SPV), a gradual approach, and leveraged financing to build EO. EOTs account for roughly 90% of all conversions to EO annually and are the second most popular business succession strategy in the United Kingdom as of 2024 (Eoa & WRCEO, 2025). Firms large and small and in multiple sectors are increasingly making use of this option, which therefore deserves some attention with respect to its ability to be harnessed for promoting democratic employee participation.

As mentioned, the EOT is not technically an EO model, since it is a PS scheme. Therefore, the collective account from which the PS stems is not connected with any governance rights. Nevertheless, the requirement that a controlling interest in the firm being converted is required to be in the hands of the trust distinguishes it from the American ESOP model, where tax benefits are only available if the ESOP owns more than 30% of the focal company (Rosen, 2017: 414). Its popularity and distinction from EO models proper mean an analysis of its structure, its financing regime, and its ability to facilitate employee participation in governance is called for.

4.1.1 *Structure of EOTs*

Like the US ESOP, an EOT is structured via the creation of an SPV that is structured as a trust, which acquires a controlling stake in a particular company. EOTs

generally have both employee committees (sometimes called “works councils”) as well as employee representation on the trustee board. In other words, an EOT tends to have three structures: (1) the SPV organized as an employee trust, (2) the trustee company, and (3) the limited trading company. The trust holds a significant share of equity in the focal organization on behalf of employees.

The trust’s manager, the trustee, is mandated by a trust deed and trustee articles of association to act in the interests of employees. The deed establishes the terms between the trust’s different stakeholders, including the trustee board. Governance decisions are made by the trustee board, whose composition is not prescribed by law, though they usually aim for parity with respect to employee and employer representation, with usually one independent member of the board, similar to the arrangements in co-determination.

This structure intends primarily to align a firm’s activities with an extended notion of corporate governance that includes the interests of employees (Nuttall, 2022), without extending governance rights to employees.

4.1.2 Finance mechanism

The EOT has been recognized since the Finance Act of 2014. Entrepreneurs who sell a controlling interest in their firm to an employee trust can forego capital gains tax on the sales price, given the trustee acquires a controlling interest in the firm. In other words, there is a minimum threshold of 51% ownership of the company by the SPV for the tax benefits to accrue (Warren, 2022b). Employees receive benefits via the common ownership structure, including up to £3,600 of tax-exempt profit sharing per employee per year (Pendleton and Robinson, 2017: 7). Thus, there are tax benefits to owners choosing to sell their companies to an EOT-led EBO, as well as benefits to employees of an EOT.

One of the issues that has been raised is the inability of the “founding generation” of an EOT to partake in the benefit, since the firm’s profits are usually redirected to paying off the incumbent owners (Ellerman and Gonza, 2024: 8). Moreover, the common ownership scheme is apparently inconsistently applied, since EOT managers are allegedly able to have individual equity accounts (Ellerman and Gonza, 2024: 9).

4.1.3 VME case study

VME, an IT firm providing services to roughly two-thirds of independent British retail cooperatives. It was started in 1988 as a family business. In 2004, a management buyout occurred that ultimately resulted in an EOT being chosen. However, those responsible for the transformation of VME into an EOT observed in interviews that “the EOT model is in conflict with increased employee participation”, due to the statutory requirements of the trust form. In order to anchor employee participation in the governance of VME, a “two-tiered” approach was developed entailing the creation of multiple classes of shares in the trustee firm. This includes “labor shares”, which every employee receives and which are tied

to governance rights in the trustee firm. Nevertheless, statutory law requires the trustee manager to have a majority stake in the trustee firm. This limits the effectiveness of the “labor shares” in practice (Warren, 2022b).

4.1.4 *Prospects for the future*

Leading EOT practitioners in the UK have begun to engage in a more systematic exploration of strategies for “embedding co-operation in the trust model.” Alcock and Nuttall (2025) suggest that the EOT structure does not preclude more cooperative forms of governance, since its trustee body could also be a legal entity – including a co-operative. While this has not yet become established practice, the authors argue that workers could establish a co-operative to act as a trustee, representing employees’ interests alongside those of an independent trustee and a trustee from the company board. In the structure envisaged so far, however, the model would still fall short of genuine workplace democracy, instead providing a “paritarian” governance structure that incorporates the voices of selling owners, managers, and employees.

4.2 *Employee buyouts in Germany*

4.2.1 *Cooperatives & company successions in Germany – latest trends*

Germany, the largest economy in Europe and the third largest in the world, is dominated by family-owned SMEs (Fels et al., 2021). Broadly speaking, cooperatives play a marginal role in Germany, with around 8,000 out of a total of 3.84 million SMEs (Schwartz, 2025). They are either not known, poorly understood, or not widely favored. At the same time, cooperative startup costs are relatively high (Münkner, 2013: 418ff).

Like other countries, Germany is facing a wave of retiring entrepreneurs. This is at least in part attributable to the average age of the current generation of company owners in the country reaching a new high (Schwartz, 2025). Numerous reputable institutions, such as the *Kreditanstalt für Wiederaufbau* (German Development Bank) and the Institute for Small and Medium-sized Enterprise Studies (*Institut für Mittelstandsforschung*, or hereafter “IfM”), have predicted that tens of thousands of firms every year will be facing succession challenges in the coming years (Blome-Drees and Rang, 2014: 15), with challenges due to the old age of entrepreneurs “increasing”.

4.2.2 *EBOs for company succession: a German perspective*

Founding firms with EO is not widespread in Germany. The German model of co-determination separates ownership from control in theory (Jager et al., 2022). However, that model is under strain at present due to shifts in the global economy away from technologies and sectors in which the German economy is and has been heavily invested. In the eastern part of the country, some experiences with worker

ownership existed, which were, however, largely dissolved after reunification in 1991 (Azzellini, 2021). Additionally, conversions to EO are still rare in Germany (Blome-Drees and Rang, 2014: 10).

This situation is surely exacerbated by the fact that the German legal and institutional regime lacks a standardized set of institutions and resources for promulgating EBOs, a German version of the ESOP or EOT (Schimmele, 2019). Therefore, and considering the recent uptick in interest in EO generally (Europe and Kelso Institute, 2024), Germany needs a dedicated legislative framework for simplifying and incentivizing a user-friendly EBO scheme.

Several key stakeholders in Germany have worked and are working to promote viable models for EBOs at scale. For example, in 2018, regarding micro- and small enterprises, Platform Coops, e.G. worked with Italian partners to develop a democratic employment policy instrument, particularly for companies in rural areas of the state of Brandenburg, Germany. Here in particular, the closure of companies can affect the attractiveness of an entire region. The project *employee cooperatives* were funded as a social innovation by the state of Brandenburg and the European Social Fund (h3-o, 2018). More recently, the newly founded German IED (*Institut für Unternehmensdemokratie*, hereafter “IfU”) aims to develop and promote models suitable also for larger companies, including a model for leveraged EBOs inspired by both the UK’s EOT and by the European ESOP presented in Section 4.3.

In the following, we present two successful cases of EBOs in Germany: one small enterprise with around 35 employees and one large enterprise with around 500 employees. The conversion of both companies involved the creation of an *eingetragene Genossenschaft* (e.G.), the legal German term for a cooperative enterprise (Münkner, 2013). The first company, *oose*, was converted in 2014, while the second, *Iteratec*, was partially converted to a cooperative in 2019 and expects to finish its conversion by 2027.

4.2.3 Case 1: *oose* eG

oose eG has been offering education services for over 20 years, primarily in the fields of systems and software engineering, project management, business processes, soft skills, consulting, and new forms of work. *oose* was founded as a limited liability company (GmbH), and in 2014, it was transformed into a cooperative, which currently has about 40 worker-members. The idea for an EBO came up because the founder no longer wanted to take responsibility for about 35 employees and their families. A few years earlier, the company had already introduced a model of self-organization inspired by sociocratic approaches.

4.2.3.1 PARTICIPATION

oose practices one of the highest forms of democratic co-determination: *self-organization*. To this end, around 20% of all members’ time is scheduled for work in working groups dedicated to the organization and further development of the company. Members are kept fully informed about the company’s financial situation

and participate in key decisions, such as the recruitment of new employees. The Management Board, as in any other cooperative, represents the cooperative externally. Internally, however, it simply acts as a service provider, managing the commercial needs of the members. Andrea Grass, a member of oose has said of the transformation, “I still do the same job but enjoy my work about twice as much”.²

4.2.3.2 FINANCING

The financing of the EBO already reflects a strong cooperative approach. The aim was to ensure that all employees could afford to become members of the cooperative. The membership fee was set at an accessible level, with only part of the share price required to be paid upon joining the cooperative. The number of shares per member is limited, and distributions per share are made at the end of a financial year. In order to prevent decisions relating to profit distribution from being overly influenced by the self-interest of members with many shares, each member may acquire a limited number of shares. The agreed purchase price was paid by the cooperative from the profits generated on an ongoing basis. The financial redemption took place over a period of ten years, without banks being involved.

4.2.4 Case 3: Iteratec

Iteratec is a large company employing around 500 people in Germany and Poland. It considers itself an “end-to-end partner for digital transformation of enterprises” and claims to have customers, both large and small, in “a wide range of industries – from automotive, e-commerce and energy to financial services, industry and logistics, media and the public sector” (Eberhardt and Goerke, 2021). The company has been implementing software and digital innovations for 30 years.

Increasingly throughout the years leading to 2020, its founders considered the question of succession and retention of the company’s “unique corporate culture” (Id.). After learning that the then-owners were thinking about succession, some of the employees decided to pursue an EBO. In this respect, in 2018, together with employees, *nurdemteam e.G.* was founded as a cooperative. Employees of Iteratec are eligible for membership. Currently, the cooperative owns 49% of the company, with plans to extend ownership to 100% by 2027 (Id.).

4.2.4.1 PARTICIPATION

Iteratec is one of the most prominent cases of EBOs in Germany. In this case, one of the key reasons that led the employees to buy out the company was to preserve the valued corporate culture. In other words, Iteratec already had a culture of participation before its formal (currently partial) conversion to a cooperative. Its founders describe this as being “primarily a question of attitude” (Eberhardt and Goerke, 2021: 415). Their focus on team cohesion has led to a shift away from a mentality of “Everyone is replaceable” to “Without my team, I’m nothing”.

The aim of deepening Iteratec's participatory culture has only increased since the process began to convert the company into a cooperative. This has meant adapting the governance structure to the new situation while recognizing the growth of the company. This has led to a result that, "[w]hile it incorporates some approaches familiar from holocracy and sociocracy, [...] is [...] unique to iteratec" (Id.).

4.2.4.2 FINANCING

The company has around 500 employees and an annual revenue of over €40 million. Due to the size of the company, an employee self-financed conversion was unthinkable. Therefore, a financial vehicle of a vendor note was chosen, the value of which is being recouped via retained profits. This allowed the employees to use financial leverage to purchase 49% of the shares of the company (to date) and transfer them to the cooperative. "Every employee of the company can become a member of the cooperative and thus a co-owner as long as the employment relationship exists" (Id.). Employee deposits gain interest and are paid out upon retirement or leaving the company. The remaining 51% of the company is to be sold to the cooperative via a similar vendor note, a task the company aims to complete by 2027 (Id.).

4.2.5 *Conclusions and challenges*

EBOs could be an attractive alternative for saving companies with a successful business model from closure. Nevertheless, two of the key challenges are financing and the lack of dedicated policy infrastructure. In the case of financing, employees frequently do not have sufficient financial reserves, particularly as the opportunity to acquire businesses often arises unexpectedly.

With respect to the former challenge, self-financing of EBOs by employees is possible in small and micro-enterprises, but larger firms require a more advanced credit/finance apparatus, which is today largely absent in Germany. This renders the existence of financial partners, including risk capital, a desideratum. IfU is seeking to build alliances with banks and foundations to promote leveraged EBOs as a "win-win" for target companies and for financial intermediaries. With respect to the latter challenge, without an analogue to the Nuttall Report in Germany, it is unlikely that a government will invest the resources to promote EO as a succession strategy. This makes getting the famed German "Mittelstand" behind the EBO form a desideratum. Lastly, German law does not legally recognize the trust form, making a one-to-one adoption of the EOT impossible without significant changes in tax and financial legislation (Wienbracke and Wienbracke, 2012: 21ff), necessitating another vehicle for realizing EBOs, for instance, foundations or cooperatives.

While the Iteratec case was possible due to strong motivation on the part of the founders and an already present participatory culture, the EBO will never exit the margins of the German entrepreneurial community if external financial institutions are not involved and if there are no incentives such as the EOT in the United Kingdom provides. Iteratec in particular presents a potential use case for

developing a simplified EBO model for Germany, due to its large size. It should be further explored as a proof of concept that could be generalized in Germany.

4.3 *Cooperative employee stock ownership plans in Slovenia: showing the way forward?*

In recent years, Slovenia has emerged as a pioneer in adopting innovative EBO models among EU countries. Despite the limited presence of worker cooperatives and other employee-owned companies, EO has gained traction in public discourse and is now featured on the agendas of most major political parties. In 2022, Slovenia's coalition government committed to introducing legislation to promote EO during its 2022–2026 mandate. The government delivered on its promise in 2025 with the introduction of the Employee Ownership Cooperative Act, which introduces an EO model “modeled based on the ESOP” (GOV.SI, 2025).

The conceptual basis of the legislation is the proposal for a European ESOP by Ellerman et al. (2022), promoted by IED since 2018. The primary aim of the law is to address the succession challenge in the SME sector, which is particularly acute in formerly socialist countries – including Slovenia. Many Slovenian businesses were established in the early 1990s, meaning that a significant number of owners are now approaching retirement. In a context where family succession is on the decline (SPIRIT Slovenija, 2022), alternative succession tools are being actively explored. The introduction of the ESOP law takes place against this backdrop and demonstrates strong potential for scalability. Preliminary data from a recent survey conducted by the University of Ljubljana found that half of Slovenian business owners believe that EO, as a succession mechanism, would benefit the country's economy.³

4.3.1 The European ESOP

In essence, the European ESOP seeks to promote the scale-up of cooperative ownership by facilitating the conversion of profitable companies (Rosen et al., 2025). This is achieved by taking the basic structure of the ESOP model and substituting the *trust*, which serves as the ownership vehicle in the United States and United Kingdom, with a special purpose workers' cooperative known as an *employee ownership cooperative* (EOC). This ensures democratic governance at the level of the shares owned by the employees, where employees are represented by an elected Board or President. Effectively, when a company is majority-owned by an EOC, it operates as a worker cooperative. While European ESOP EBOs are initiated by company owners, contrary to the Anglo-American models, the model also requires a high level of employee involvement during the transition: for the transaction to proceed, employees must agree to it. This is indicative of a hybrid approach that deviates from the two archetypes described above.

In addition to establishing democratic governance, the European ESOP grants members the right to profit and capital appreciation. The latter is achieved through share-based or value-based ICAs), which log the share of book value belonging to each employee. Value-based ICAs, similar to those used in Mondragon cooperatives,

are the default tool for the individualisation of workers' capital claims. With a personal ICA, each worker receives a proportional share of the capital value of the EOC (total assets minus total liabilities), where the distribution of capital value may be based on pay ratios, tenure, or any other rule determined by the EOC. In this way, the resulting capital structure assigns each member a financial claim that mimic share value. Within the framework of democratic governance, ensuring that workers benefit from capital appreciation is essential for addressing the horizon problem, creating effective incentives, and preventing underinvestment (for a detailed explanation of the horizon problem, see Ellerman, 1986; Ellerman and Gonza, 2024). Moreover, it allows the costs of the buyout to be spread across future generations of employees. Without this mechanism, the employees executing the buyout, who might have to forgo all profits for several years to pay off the acquisition debt, might be incentivized to sell the ESOP stake to an external buyer for compensation.

To reduce the repurchase obligation of the company and the risks associated with undiversified investment, the model introduces innovations such as the “roll-over” system, a plan of continuous repurchase and redistribution of shares stored in ICAs (or of continuous payout of accumulated value in the case of value-based ICAs), which could improve upon models like the US ESOP (Gonza, 2025). Just like Mondragon, it combines individualized ownership with collective ownership by establishing both individual and collective capital accounts. This dual structure further reduces the company's repurchase obligation, contributing to greater financial stability. Such a feature also shows promise for adaptation within Anglo-American EO frameworks (Gonza, 2025).

4.3.2 Pilot implementation in Inea d.o.o.

Inea d.o.o., a Slovenian company specializing in automation, power engineering, and manufacturing informatics, has long upheld a commitment to EO. Originally founded in 1987 as a spin-off of the Jožef Štefan Institute, the company grew from a service provider into a major manufacturer, exporting 90% of its products and ranking among Slovenia's top exporters.

Despite its internal ownership *ethos*, Inea faced structural challenges in sustaining EO. The original model – direct employee share ownership – proved unsustainable, as retiring owners retained shares, which posed an obstacle to generational succession. Ownership fragmentation and financial constraints made it increasingly difficult for new employees to acquire shares. This was compounded by the existing cap on the number of shareholders in a Slovenian limited liability company (d.o.o.) at 50. Various alternative structures, including partnerships and joint-stock models, were explored but failed to resolve these issues.

In 2019, Inea's leadership approached IED and ultimately adopted the European ESOP model. This approach addressed the succession and financing challenges by allowing collective employee share acquisition through financial leverage. The model ensures democratic governance, gradual ownership transfer, and broad employee participation, aligning with Inea's long-standing values. By requiring high-majority votes for ownership changes and preventing individual share trading,

the European ESOP ensures long-term employee control and fosters organizational stability. Today, Inea is a democratically governed, 100% EO company.

4.3.3 *The Slovenian ESOP legislation*

On October 23rd, 2025, Slovenian center-left coalition government integrated the European ESOP model into the Slovenian legal framework, enshrining it in law and supporting its adoption with tax incentives. The initiative was supported by both trade unions and chambers of commerce, with the law proposal having been welcomed favorably by all parties involved in social dialogue at the Economic Social Council.

The Employee Ownership Cooperative Act will establish a new legal entity – the EOC – designed with the intention to facilitate EBOs and maintain EO over the long run. Regulations ensure that the EOC upholds cooperative principles. A cooperative shall obtain the special status of an EOC if at least 75% of all employees with more than one year of tenure in the operating company are included, if democratic governance at the EOC level is ensured, and if profit-distribution ratios do not exceed an upper limit of 1:8. To promote inclusivity, the price of a membership share for entering EOC membership is capped at roughly 10% of the average monthly salary in Slovenia. The EOC will support both individual and collective capital accounts, with the former allowing for valuation based on either a share-based or value-based method (Rosen et al., 2025).

To encourage widespread adoption, much like in the case of EOTs and ESOPs, the legislation introduces a 20% capital gains tax reduction for sellers. To decrease the cost of capital in EBOs and maintenance of EO over the long run, the ESOP contributions from the operating company to the EOC are categorized as labor expenses and are, therefore, tax deductible, while the income at the EOC level is not taxable income. The upper limit to the tax-deductible contribution is calculated as $\text{EBITDA} * \% \text{ of EOC stock}$, meaning that if EOC holds 50% of the operating company, the ESOP contribution can be at most 50% of total EBITDA for each given year (given certain additional limitations). In this way, the law incentivizes EOCs with a higher percentage of EO. Payouts of capital value to employees are treated as dividend income during their employment, whereas amounts paid after their departure are subject to capital gains taxation. Finally, a “tax clawback” provision requiring the EOC to pay, as a “tax benefit return”, the equivalent value of previously received tax benefits if EOC stock is subsequently sold to external investors – has been introduced to disincentivize sell-outs.

5 **Conclusions**

The chapter has attempted to trace out the evolution of EO in the Global North from its origins in the 1950s in the United States as a distinct model of inclusive ownership from the worker cooperative. It argued that frequently, due to the nature of the political system, EO models like ESOPs and EOTs largely emerged without a concurrent effort toward movement-building and therefore are largely absent

of such associational or federative structures as exist frequently with respect to cooperatives. It also discussed how the practical approach to establishing EO differs between cooperative-based EBOs and Anglo-American EBO models. While in the former, the transaction is typically worker-initiated, and the exiting owner hardly plays a role; in the latter, the roles are usually reversed. This dynamic is also exhibited by the governance structure established by these EO models. Hybrid approaches, which have emerged in the United States at the level of individual companies and are now being institutionalized in EU countries, indicate that a “third way” – one that aligns with cooperative values while maintaining the practicality of ESOPs and EOTs – is possible. Such an approach is being explored in various countries as a strategy for addressing the pressing issue of business succession – and doing it the “cooperative way”. The chapter highlighted these trends with respect to three country case studies.

In the case of the United Kingdom, the main lessons are that the EOT form is very popular and has brought EO into the mainstream. The impact of experts like Graeme Nuttall in promoting the EOT as a robust alternative succession path has enabled a consensus to emerge around the EOT that has seen it experience exponential rates of growth in terms of its adoption as a business succession strategy. At the same time, EOTs aren’t technically EO, but PS, and the statutory framework makes the extension of governance rights to employees a challenge, as the case of VME attempted to demonstrate.

In the case of Germany, the present lack of any institutional incentive structures to promote EO means the phenomenon remains on the periphery. This is at the same time as the economy faces a crisis in terms of succession that is increasing rather than stabilizing. One of the two cases of EBOs covered in the section, oose, demonstrates that a conversion to EO is possible via the traditional cooperative legal form (*Genossenschaft*). However, oose is a small enterprise whose conversion didn’t require outside financing. Germany at present still lacks a unified legal structure for promoting and incentivizing broad-based EO as a suitable alternative to the trade sale. In the case of iteratec GmbH, cooperative ownership was established through an ESOP/EOT-inspired buyout model, which solved many of the challenges typically present in cooperative conversions. This model is in line with international efforts to combine cooperative principles with modern EBO mechanisms, showing potential for scalability. However, the lack of a legal or institutional framework or tax incentives presents a significant hurdle to widespread implementation.

In the case of Slovenia, recent efforts by IED to promote a European-style ESOP have been successful in providing impetus to create a new legal framework promoting cooperative-based EBOs in profitable companies through modern EBO mechanisms. The legislation for regulating and incentivizing the European ESOP in Slovenia could serve as a blueprint for scaling up cooperative ownership in countries with poorly developed cooperative ecosystems – particularly those facing an acute business succession crisis, such as formerly socialist countries. In countries with a longstanding tradition of cooperative-based EBOs, the European ESOP could complement existing models, which appear generally ineffective at addressing the succession challenge.

General conclusions are that new EO models are helping cooperatives to scale up, but at the same time, new hybrid models are also bringing new concepts to EO circles (value-based ICAs, collective accounts, etc.). This is producing a welcomed dialectical interaction benefiting both worlds (i.e., cooperatives and EO firms).

Nevertheless, it remains to be seen to what extent the two movements, if one can speak of them in this way, will be able to grow closer in more organic ways, since so far, identity-based division has persisted, with EO and cooperative practitioners insufficiently communicating. Moreover, there is the persistent question of organizational drift, especially directed at the legacy cooperative movement, whose principles of democratic member control and mutualism may be at risk from the more pragmatic approach of ESOPs or EOTs.

Lastly, it should be emphasized that the majority of EO efforts seem to be concentrated in the Global North, as the aging population in the region is facing the succession crisis in a much more pronounced way than in other regions. At the same time, economic conditions in the Global North are stable enough to allow for such transactions to occur. Nevertheless, similar models are also being explored in countries such as Argentina and Mexico and (Ana and Miguel's chapter) similarly review the potential and challenges for broad-based EO models in Brazil.

Notes

- 1 <https://www.oose.de/ueber-oose/>.
- 2 Official website of the ongoing project (May 2025) available at: <https://www.fdv.uni-lj.si/raziskovanje/institut-za-druzbene-vede/raziskovalni-projekti/P7666>.
- 3 In this chapter, we do not differentiate between EO and worker ownership 8WO, although we acknowledge that the former term is commonly associated with Anglo-Saxon models such as the ESOP and EOT, while the latter has broader application but is the preferred term when referring specifically to worker cooperatives (Abell, 2014; Sanderson, 2023; Mygind and Poulsen, 2021). Based on the authors' personal observations, this tendency is also evident in the terminology of EBOs and worker buyouts (WBOs). Some authors have used EO and WO to distinguish between white-collar and blue-collar firms, respectively (Hansmann, 1989). WO appears semantically more appropriate when referring to worker cooperatives, as these are membership-based organizations where workers are, theoretically, cooperators and members rather than employed by an employer. While subtle differences can be identified – particularly the connotation of “employee” implying a more subordinate position compared to “worker” – in this discussion, the term EO is employed to refer to an ownership structure in which ownership rights – namely rights to profits, capital value, and governance – are attached to a functional role, specifically the provision of labor within the economic firm, whether in worker cooperatives, ESOPs, or EOTs. The same usage applies to the term EBO, which is used to encompass all forms of buyouts where individuals regularly employed by a company acquire ownership through a regular market exchange.

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