Using ESOPs to Democratize Labor-Based Platforms

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Abstract

This paper explores a new strategy to address the problem of “gig-workers” in labor-based platform companies. The two current strategies are (1) regulations (e.g., requiring platforms to recognized workers as employees) or (2) creating new platform cooperatives to compete with the established platforms. Our purpose is to propose a third complementary approach, which is democratizing and adapting the Employee Stock Ownership Plan to gain co-ownership in the local subsidiaries of the labor-based platforms (LBP). This option puts a new tool in the hands of the municipal and national authorities that could regulate the platform sector.

Keywords: Labor-based platforms, Employee Stock Ownership Plans (ESOPs), Coop-ESOPs.

Introduction: Labor-based Platforms

Platform technologies are taking the central stage in the last decades as predominant marketplaces for ideas, transportation services, music, and video products, delivery, accommodation, cleaning, finance - and even dating. Platforms are a good example of a technological disruption that benefits an exclusive group and where the social costs of innovation are externalized to the workers, local communities, and the state. Studies of the past years are consistently discovering negative effects of platform economy like economic and social insecurity, material deprivation, deepening economic, gender, and racial inequalities, detrimental effects on mental health and more (Schmidt 2017; Scholz 2012; Borowiak 2019). It is not surprising that regulators and activists both are trying to search for regulating strategies, which would more evenly distribute the added value created by platforms and decrease the social costs of these new technologies.

When analyzing platform economy and proposing regulative strategies, we should bear in mind the relevant differences among these platforms. Our focus here is on labor-based platform (LBP), which are defined by a few characteristics. Firstly, providers on LBP offer labor services, which excludes platforms that offer commodities, finance, or relationships. Secondly, the business model of LBP depends as much on the underlying technology as lowering the labor costs; LBP gain competitive advantage because they avoid the labor regulation associated with traditional forms of employment (Borowiak 2019; Drahokoupil and Fabo 2016). Platforms lower labor costs by hiring providers as independent contractors, pushing capital depreciation costs, social and pension contributions, and income taxes on labor providers, avoiding minimum wage legislation, dismissing overtime and sick leave payments and so forth. Thirdly, LBP are usually natural monopolies, since they rely on so-called 'network effects' to gain competitive advantage over other platforms. The network effect implies a feedback loop where more users of a platform imply more providers of a service, and more providers of the service bring in more users. The result of this is that the LBP markets are dominated by a few large players (Parker, Petropoulos, and Van Alstyne 2020; Rolnik et al. 2018; Martens 2021).

Some main examples of LBP are taxi platforms (e.g., Uber and Lyft), delivery platforms (e.g., DoorDash, Wolt, and Glovo), cleaning platforms (e.g., ChoreRelief, Handy, and MaidsApp), and task platforms (e.g., Task Rabbit and Mechanical Turk). At the beginning, the main part of labor providers on these platforms were only gig workers who are trying to make some extra money, however, as the platforms are gaining on market share against the conventional companies, more and more workers are forced to become dependent to work on these platforms. In this paper, we briefly describe the prevalent two strategies, which are (i) government regulation by redefining platform work as conventional employment and (ii) grassroot cooperative organization of platform technologies. While these strategies are very important in addressing the problems underlying platform work, they face certain limitations. Since platform work is gradually crowding out the conventional employment with all the labor rights attached, it is becoming increasingly important to explore alternative complementary strategies to regulate platform work. We propose a third, complementary strategy, which is not yet seriously explored in the literature on platform work regulation.

Addressing the Problems of Labor-Based Platforms

The two main approaches to addressing the well-known problems in labor-based platforms are regulatory reform, and developing platform cooperatives. Our purpose is to suggest a third approach that is complementary to the regulative and cooperative approaches.

The Regulatory Approach

As the platform economy is scaling up, "regulators around the world have struggled to keep the pace with the changes these platforms have presented" (Cherry 2019: 1). One of the most common calls to regulate the labor-based platforms is to redefine the relationship between the precarious worker and the platform as an employment relationship (Alexander and Tippett 2017; Cherry 2016; 2019).

Most labor-based platforms claim that their workers are in fact independent contractors, which is supposedly decided through terms and conditions listed by the platform providers (Cherry 2019). The question whether a worker is an employee or not is determined differently in every country, however the main factual principles are the same as in the ABC criteria determined by a California Supreme Court decision in 2018:

A. The worker is free from discretionary control and direction of the hiring entity in connection with the performance of the work, both under the contract for performance of the work and in fact. (the Control test);

B. The worker performs work that is outside the course of the hiring entity's business. (the Separation test);

C. The worker is customarily engaged in an independently established trade, occupation, or business. (the Independence test). (Cusumano et al. 2019: 154-155)

The main question is whether the principal, i.e., the owners of the platform, have control over the worker. The Control test is to see if an employer may direct the way in which work is performed, to see if the worker can decide on the number of hours worked and provide worker with directions (Ellerman 2021, 51-52). However, as many observers (Dwoskin 2015) have pointed out, the new algorithms implement even greater control over workers than in traditional companies—which makes a mockery of the argument that the Uber drivers are "independent contractors."

Another common-sense test to determine the dependency or independency of a worker is to follow the money – who controls and distributes the revenue stream from the paying customers? When it comes to Uber and many other similar platforms, the money stream has a clear direction. It goes from the customer to the platform, which in turn pays the drivers their fee. Uber argues that the workers are using their own assets, i.e., their cars, so they should be treated as independent businesspeople, but during the pandemic many traditional white-collar employees also used their own assets, i.e., their home office, without losing their status as employees.

One might also consider a genuine independent contractor such as a plumber who operates as a proprietorship and who contracts with a calling service to take calls from existing or potential customers during work hours. The calling services would not be receiving the payments for the plumbing jobs or dictating the type of truck or clothing used by the plumber. Yet Uber receives those payments and exercises that type of control and yet claims to be just a calling/hailing service.

The main idea behind the regulatory approach is that platform workers, like all others, are entitled to all basic workers' rights like minimum wage, 8-hour workday, overtime pay, sick leave, protection from discrimination, unemployment insurance, and possibly paid holidays, maternity leave, and so forth—economic rights historically established by the Trade Union Movement (Mexi 2021).

The battles on this topic are now being fought in the courts. Recently, European Court of Justice classified Uber as a transport service company, subjecting it to the EU regulation (Pentzien 2020). Similarly, Spanish Supreme Court defined Uber workers as employees, demanding basic employment rights and algorithm transparency, meaning that platforms need to notify workers about mathematical programs that determine the conditions of work, pay, and so on, which should neutralize the algorithm's punishments, penalties for performance, and bias (Aranguiz 2021). In the UK, Supreme Court ruled that Uber drivers must be treated as workers rather than contractors (*BBC News* 2021a), with Uber responding that they will guarantee hourly minimum wages, holiday pay, and pensions (*BBC News* 2021b). Something similar happened in the Netherlands (Asher-Schapiro 2020). In the litigation in the Northern District of California, drivers of the Uber platform have been seeking minimum wage protections, overtime pay, and other employee benefits defined under the Fair Labor Standards Act (Cherry 2016: 5). In the end, the industry-backed Prop-22 successfully overruled the efforts to establish gig workers as employees in California. While reading about the "failure to regulate" (Collier, Dubal, and Carter 2017), we should also look into the other options in establishing worker rights in the platform economy sector.

The Platform Cooperatives Approach

This alternative is based on the co-operative organization of labor-based platforms, which implies "co-development and co-ownership of software applications for online matching platforms" (Manan 2020: 1). The experience with platform cooperatives is growing, and there is more and more good practice of how networked platform workers govern the platforms, allocate work, responsibilities, manage operations, supervise, and enhance performance (Scholz and Schneider 2016; Scholz 2016). This is certainly a welcome development. The Drivers Cooperative is a driver-owned co-operative competing against the likes of Uber and Lyft. Ken Lewis from The Drivers Cooperative said that "while Uber and Lyft make their money for Wall Street and Silicon Valley investors, we are a co-operative…. profits go back to the drivers."[1] There are many other successful co-operative platforms in different sectors around the world. [2]

When considering an alternative, it is important to consider how to scale up. Advocates of platform cooperatives have hoped that government regulation of platform economy would help to diminish the competitive advantages of the big players by restraining and regulating highly capitalized competitors without any social and local accountability concerns (Pentzien 2020). Despite the increasing regulation of the platform economy, however, platform cooperatives do not seem to be gaining the market share (Schneider 2018; Benkler 2016; Pentzien 2020). One could try to explain the sluggishness of platforms cooperatives in gaining market share by looking at the much-discussed networking effect. Platforms leaders build ecosystems that close off competitors, investing great resources to build and maintain monopolies (Srnicek 2016). Cooperative platforms are mostly market followers, making them *a priori* disadvantaged like any other potential market follower that does not differentiate in business model but seeks market share. The first-mover

[1] Accessed on 23/11/2021 at https://drivers.coop/.
[2] Today there are 129 platform co-operatives worldwide as reported by the co-op registry of the Internet of Ownership. Access on 11/23/2021 at https://ioo.coop/directory/. One thing to mention here is that labor platform cooperatives are not always worker cooperatives. Many of the "showcase" examples of platform cooperatives in Ours To Hack and Own (2016: 77-90) are multi-stakeholder co-operatives, where workers are either just one group of owners or remain platform workers without any additional rights.

advantage is a major factor in the industries with networks effects, where network effect means that “one firm, or standard, would control the market, since bigger was always better” and “since direct network effects would magnify the effects of even the slightest of leads”, it is always “better to start first and keep your lead” (Evans and Schmalensee 2016: 33).

Another strategy is to understand the actual failures of co-operatives against conventional platform competitors. In his recent paper, Borowiak (2019) tells the story of Philadelphia based Alliance Taxi Cooperative (ATC); a worker co-operative, owned and democratically governed by taxi drivers themselves. Not long after its founding, it already lost the battle against well-networked Uber and Lyft, which, at the time, jointly had almost 20,000 drivers in Philadelphia. The ATC example shows how the capitalist version of *the sharing economy* extracts value by dismantling regulatory protection and by what a public transit representative in Philadelphia called a “predatory search for market share” (*ibid.*: 13). This creates disincentive for *the solidarity economy* unwilling to participate in the “race to the bottom”, and it also imposes an inherent competitive disadvantage, making it very difficult for cooperatives to compete with established economies of scale.

Moreover, there seems to be confusion in cooperative and labor circles about how best to counter the challenge of labor-based platforms. After the regulatory victories in Spain and the UK about treating gig workers as employees, one response of Uber is to foster the formation of gig worker labor-supply cooperatives that would jointly, rather than individually, supply labor to the platforms. Then the platforms could offload all the traditional benefits of the employee status to those labor-contracting cooperatives—much to the chagrin of the genuine worker cooperatives such as the Mondragon cooperatives in Spain. Yet this same strategy of creating Cooperative Labor Contractors (CLCs) is being recommended by pro-labor advocates in California (along with enabling legislation) as a way to address the precarity of gig workers in labor-based platforms. “Instead of relying on the companies to set wages, hours, and working conditions, workers who are members of CLCs would assume legal responsibility for payment of wages, health and safety expenses, payroll taxes, UI, and workers compensation.” (Justie et al. 2020: 27)

A New Ownership-Based Approach

It is hardly a novel observation that startup platform cooperatives will have a tough time displacing existing platform due to all the industry characteristics of network effects and first-mover advantages. Yet there is little or no literature on mechanisms to *convert* existing platforms to more cooperative and democratic forms—even though some have at least broached the idea: "Don't just build—convert." (Martin 2016: 190). In the anthology of articles on platform cooperativism (Scholz and Schneider 2016), one - and only one article mentioned Employee Stock Ownership Plans (ESOPs) and ended with the suggestion that "more widespread provider stock ownership programs may well be a natural response, and perhaps the most pragmatic prospect for sharing the wealth of the sharing economy." (Sundararajan 2016: 144).

In this section, we explain what the American ESOP is, how it may be redefined to become more democratic, and how it can help to provide a buyout mechanism that will effectively distribute ownership and control of established labor-based platforms more into the hands of platform workers.

The American ESOP mechanism: Prospects and Problems

What is special about the ESOP? Almost all mechanisms for partial or complete worker ownership are based on employees buying shares out of their own resources. They are variations on what is called "Employee Share Purchase Plans" or ESPPs where employees are encouraged to individually buy shares in their employer at a discounted price and perhaps paid for over time out of payroll deductions. Since employees may vary widely in their availability of funds to invest in company shares, the uptake in ESPPs is usually by better-paid white-collar employees. While this may eventually create an "employee-owned" company in the technical sense (i.e., a majority of ownership is held by employees including managers), it does not create a company of owners, but a company still divided between non-owning employees and employee-owners. The ESOP mechanism is distinguished by legally including all employees—after some limited probationary period. But that is not the most important distinguishing feature of ESOPs.

The most important feature of the ESOP mechanism is that the employee shares are not paid for out of the employees' own pockets but by contributions from the company to the ESOP as a separate legal vehicle to hold the employee shares.

How can this be? The idea originated with the leveraged buy-out practice of one company (e.g., what today might be called a "private equity company") doing a leveraged buyout of another company. The collateral for the loan is based on the earning power of the acquired company. The acquiring company then takes various cost-saving and productivity-improvements in the acquired company and uses the earnings from the acquired company to, in effect, pay for itself by paying off the acquisition loan. Hence the acquired company pays off the loan and it is then owned "free and clear" by the acquiring company.

The San Francisco lawyer, Louis Kelso, asked why there could not be a legal mechanism to do the same sort of leveraged buyout of a company where the acquiring owner is a trust representing all the employees? (Kelso and Kelso 1986) In that case, the cost-savings and productivity improvements might well come as a natural result of the employees becoming owners supplemented by various tax benefits.

Since most ESOPs are in privately held companies, the ESOP mechanism also presented solutions to the succession problem (where there were no interested or capable heirs to take over the company) and to the problems of anchoring the company in the local community as well as rewarding the employees who helped build the company in the first place.

One alternative to selling to the employees through an ESOP is to sell to a strategic buyer, e.g., a trade competitor who can better consolidate the market by acquiring the firm. But a trade competitor would typically not want to manage two companies, so the customer lists and the key people would be transferred to the competitor's main operation, and the acquired firm would be slowly wound down without any replacement investment until it is closed. That would kill the jobs, taxes, and wage-expenditures in the local community. Yes, the selling-family of the founder might get more money that way but at the cost of seeing their contribution to the local economy and community slowly wound down and closed.

It is a similar story with a private equity buyer who would 'rationalize' the operations by laying off workers, slashing research and sales initiatives, selling assets, and ultimately disposing of the shell of the original firm drained of any prospects of long-term survival. (Appelbaum and Batt, 2014) There is even a new emerging strategy for private equity firms to extend some form of employee ownership or broad-based stock options to increase productivity, so the employees will also get a payoff when the firm is ultimately sold. (Rosen 2021)

For these reasons, the ESOP mechanism has proved an attractive option for the founders of small-and-medium-sized companies (SMEs) to divest in a way that secures a fair value for their company while at the same time rewarding their employees and anchoring the jobs, taxes, and wages in the local community. In the 40+ years since the ESOP mechanism was legislated in the late 1970s and early 1980s, there are now around 7,000 ESOPs in the US with 10% of the private workforce working in ESOP companies. There are no comparable statistics for worker buyouts by ESPPs—where it might be noted that many ESPPs and even Employee Stock *Options* Plans are sold as "ESOPs" outside the US. In Europe, there is at present no legislation for genuine ESOPs in the sense of the employee ownership being financed by company contributions, including all long-term employees, and having individualized share accounts in the ESOP as the employee ownership vehicle.

There are, however, a number of artifacts of the US ESOP that detract from the model and need not be replicated in any new legislation elsewhere for the essential ESOP mechanism.

Firstly, the US ESOP was implemented as a special type or "carve-out" of private pension retirement plans. Hence, the employee-owners do not see any cash from their ownership until they near or arrive at retirement. This greatly weakens the motivational effects for young workers who are building families and assets. But this problem can be mitigated by a "rollover mechanism" whereby the employee shares are bought back by the ESOP after a certain time period and then credited to the current employees (typically according to salary). In this manner, the younger generation of employee-owners are slowly buying out the older generation so the employee-ownership 'rolls over' from one generation to the next—but does not leave the ESOP.

The second artifact of the US ESOP that need not be repeated in other countries is the use of a trust mechanism as if the employees were children or otherwise not legally competent, so their affairs are governed by a trust with a management-selected trustee. ESOPs slowly build up the percentage of ownership over time, say, 10% at first and then increasing as time shows the mechanism to be working properly. The ESOP as the legal vehicle of employee ownership elsewhere can be a legal form where the employee-members control the voting of their percentage of the shares and perhaps have a representative on the supervisory, if not management, board of the company. A special form of a worker cooperative, an "employee-ownership cooperative," would be one possibility since most countries have cooperative laws. Other options would depend on national legislation. Perhaps the legislation would allow a foundation or *stiftung* to hold employees shares and then eventually buy them back from the employees (not possible in a standard "non-profit")—in which case that would be a possible legal form.

The third unnecessary artefact of the US legislation for ESOPs is the requirement that the company be valuated as if it was being sold in an arms-length transaction to an outside buyer. The ESOP transaction is not a standard sale of part or all of a company to some external buyer. There is no necessity whatsoever that the evaluated "share price" for the ESOP transaction (e.g., a net-asset valuation) be the same as if the company was being sold to a third party. The ESOP transaction is solely a matter between two private parties: the selling owners and the company's employees gathered together in the ESOP. It is like selling shares to a family member, relative, or friend. The ESOP transaction has a number of non-market aspects.

1. Firstly, the ESOP serves several other social or non-monetary purposes such as:
    a. rewarding the employees who helped build up the company,
    b. keeping the business alive in the community for the jobs, wages spent, and taxes paid,
    c. keeping one's legacy intact (unlikely in the case of a competitor who would slowly move the customers to their main business and wind-down the sold company taking advantage of the depreciation expenses and savings from no new investment).
2. Secondly, the payments to the seller at the appraised value are not coming from an outside third party but from the increased productivity and tax benefits of the ESOP, and any difference may be compensated for by the seller's nonpecuniary motivations outlined above.

Many sellers may confuse the ESOP valuation at net-asset value and the outside-buyer valuation—not taking into account that for an ESOP valuation and sale, the value they are receiving is not all in cash.

Using a Coop-ESOP as a conversion model

It is our present purpose to suggest a Coop-ESOP model (or, *mutatis mutandis*, an ESOP model) that could be used to make conversions of labor-based platform companies to being partially or wholly employee-owned over a period of years. Our focus is also outside the United States since there is already existing legislation and a widespread practice of setting up ESOPs in the US. Outside the US, there is at present no legislation for ESOPs that have the characteristic features of the company paying for employee shares (not individual worker assets or payroll deductions), including all (long-term) employees, and locating the employee shares in a single ownership vehicle to maximize their collective voice.

First a number of issues need to be clarified. Existing platform companies already have a host of legally recognized employees so they, like any ordinary company, could set up a Coop-ESOP. But our focus here is on those labor-based platform companies which also have another category of workers who are considered as outside the company and are legally classified as "independent contractors" — Uber and Lyft being the best-known examples. In addition to Uber and Lyft, other examples would include platforms where workers provide cleaning, homecare, catering, delivery, or shopping services for customers.

One goal of setting up a Coop-ESOP is to create a "company of owners"—not a company divided between owners and *long-term full-time* workers, some classified as employees and some as independent contractors. We emphasize "long-term full-time workers" since the point is to bring into ownership all those workers who are committed to the business as a business in which they will make their living—which *excludes* those who voluntarily want only a gig. As Yochai Benkler wisely put it, this involves a "strong core of moral values, [and] avoidance of an ethic of 'I'm just here for the extra few bucks,'" (Benkler 2016: 95) Both Uber and Lyft themselves singled out essentially full-time drivers for stock options in their initial public offerings (Farrell 2019). If regulatory changes make full-time service-providers (*de facto* employees) into *de jure* employees, that is perfectly compatible with this ESOP approach.

Platform Coop-ESOP: The Basic Ideas

For practical reasons, a Coop-ESOP should be established in the most local legal entity (e.g., at the metropolitan or national level)—which may be subsidiaries of a much larger national or international company. When establishing a Coop-ESOP in a local subsidiary Company, the Seller is the Mother Company.

A new employee-ownership vehicle is first established, in this case a worker cooperative whose members are all the permanent employees and essentially full-time workers of the local subsidiary

Company. In the basic agreement founding the ESOP arrangement, the Company agrees to make periodic, say, monthly contributions to the ESOP which will be used to slowly buy out some of the Seller's shares. There two basic financial arrangements.

1. The Coop-ESOP might take out a loan (collateralized by the shares and underwritten by the Company's promise to make the monthly ESOP contributions), so a significant portion, say 10%, of the Seller's shares would be immediately purchased by the Coop-ESOP with the loan proceeds. The monthly ESOP contributions would then pay down the loan.
2. Before ESOPs are well-established, it is more likely that the initial transfer of shares from the Seller to the Coop-ESOP would be seller-financed, i.e., would be in exchange from a Note Payable from the Coop-ESOP to the Seller in exchange for the shares. Then the monthly ESOP contributions would pay off that Note.

Prior to the loan or note being paid down, it is important that the purchased shares be transferred to the Coop-ESOP all at once so it will become say a 10% owner. The members of the Cooperative (i.e., the full-time workers of the Company) have Individual Capital Accounts (ICAs) in the Cooperative, but prior to the loan/note being paid down, the shares are held in an unindividuated Suspense Account. The underlying idea is that it is the current employees and other full-time workers who earn the ESOP contribution, so it is only as those contributions pay down the principal of the loan/note that a corresponding number of shares (or percentages in a Limited Liability Company or LLC) are transferred from the Suspense Accounts to the Individual Capital Accounts usually in proportion to their overall pay for the time period.[3]

The generic Coop-ESOP model should be implementable in any private property market economy without any special legislation (but also without any special tax advantages until such legislation is passed). The model captures the key features of the American ESOP as a remarkable social invention:

- It brings *all* the employees and full-time workers of the Company into an ownership/membership position *without* the workers risking any of their own assets or savings;
- Since all the (permanent) workers are automatically included independent of their personal wealth, it creates a "Company of owners/members" (which helps create a culture of people in

[3] See the Appendix for the steps involved in the mechanism.

business together)—as opposed to a Company with some owners and others being just workers;

- It can be leveraged with bank or seller-supplied credit, so a significant number of shares may be purchased at one time from the selling owner;
- It has a system of individual internal capital accounts so that workers have individualized ownership that will be cashed out when they exit or retire or sooner under the rollover plan;
- Once the shares are 'in' the individual accounts of the ESOP, they are eventually bought back by the ESOP, so the ownership is locally stabilized (not "on the market"); and
- The ESOP model allows a rollover plan so that the worker-owners may have their shares repurchased (and redistributed to current workers) after a number of years independent of their status with the Company.

Conclusion

In the short run, many of the platforms are living off of regulatory arbitrage (e.g., not paying payroll taxes on gig-workers, part-time or full-time), low prices that depend on time taken to readjust to the new situation (e.g., cities figuring out how to regulate and tax Airbnb), and the deluge of venture capital money that keeps platform companies afloat while they try to capture as much market as possible—even without earning a profit. As a supplement to city or national governments changing regulations, the possibility of an ESOP buyout of a significant part of the local or national platform subsidiary company puts a new instrument in the hands of the governments to structurally change the platform companies.

Moreover, having a company of service-provider/owners gives a platform company a competitive advantage both for users and for other service-providers. Users will prefer to be served by owners as opposed to people who only want to pick up a little extra income and have little stable relationship with or commitment to the platform. And service-providers will want to join a platform that makes them into worker-owners (no more 'multi-homing') rather than treats them as gig-workers, full-time or not. Competition between platforms with worker ownership programs to attract the best service-providers may do much to address precarity and improve labor standards. In addition to "voluntary adoption" of the ESOP model, state regulators could require a given percentage of ownership transferred into the hands of platform workers to lower the negative social externalities, or at the very least incentivize such transfers with tax breaks, subsidies, or other possible mechanisms. Organizing starts with the local government and local service-providers to persuade the local subsidiary to set up a Coop-ESOP for a variety of reasons:

1. for income reasons (increased productivity from owners),
2. for competitive reasons (to get best service-providers and more customers),
3. for public relations reasons, and
4. to better satisfy regulatory requirements imposed by the national or metropolitan authorities.

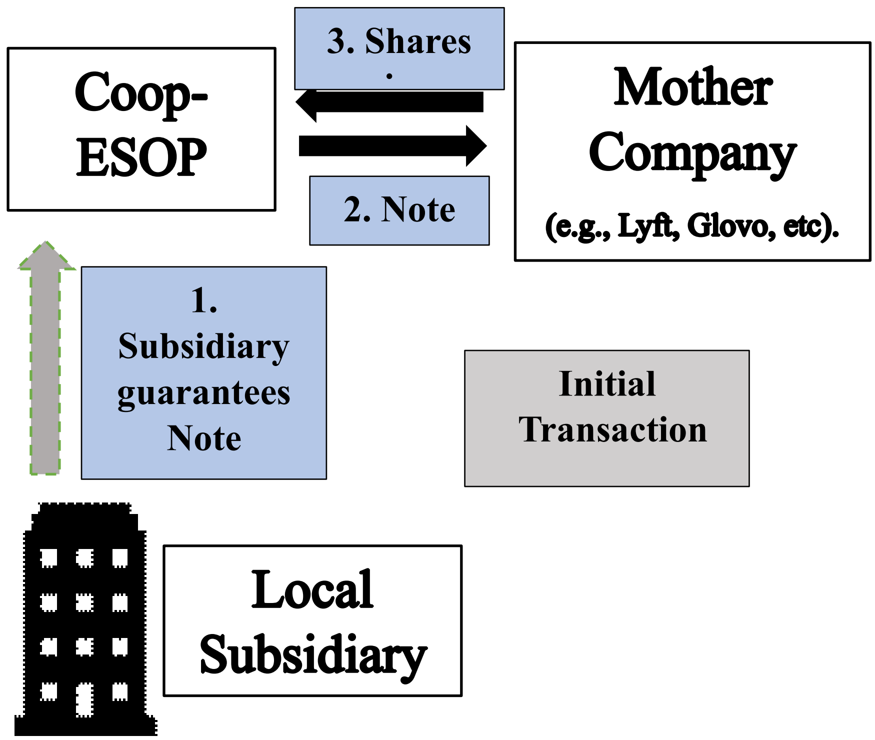
Appendix: The Steps in Coop-ESOP Mechanism

Step 1: The seller of shares (the Mother Company, e.g., Uber, Lyft…) gets a guarantee from the Company that contributions will be made to the ESOP to eventually pay off the note in return for a certain percentage of the subsidiary's shares going from the Mother Company to the ESOP.

Step 2: The ESOP issues the guaranteed note to the Seller.

Step 3: The shares pass to the ESOP. The shares are not individuated to the employees at this stage but are held in an unindividuated ‘suspense’ account.

Figure 1: COMPANY CONTRIBUTION TO COOP-ESOP PAYING DOWN THE SELLER'S NOTE



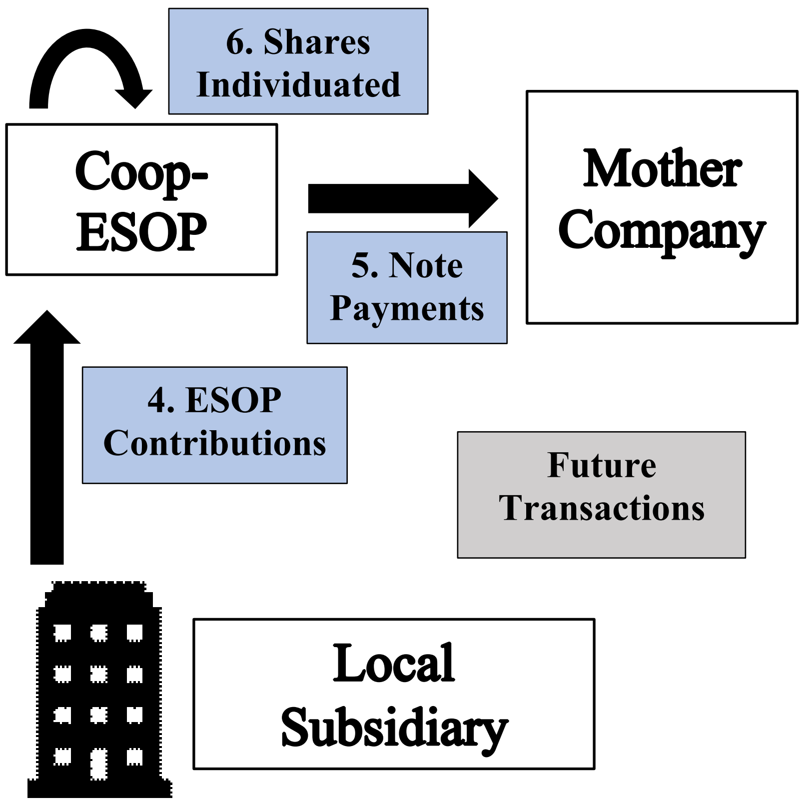
As a worker cooperative, the election of the Board of Directors and any other votes put to the membership are all on a one-member/one-vote basis independent of the amount of Company ownership credited to the ICAs of the members. That co-op Board would then vote the 10% or whatever percent of the shares (Suspense Account or ICAs) as a block in the election of the Company Board or in any vote put to the shareholders of the Company.

The initial transfer of shares to the Coop-ESOP, financed either by a Seller-Note or external loan, should be accompanied by internal changes in the Company's consultative and decision-making procedures to recognize the new role of the workers as new members (or new 'owners' in the usual parlance). The idea is to create the workplace culture of a company of businesspeople, i.e., people in business together (rather than owners versus employees). In the US case, ESOPs that make such changes reap a significant increase in productivity and profitability that goes at least part way to justify the ESOP contributions in straight monetary terms, quite aside from the moral motivations of rewarding the workers and preserving the economic basis of the local community.

As these changes are made successfully and as the Seller-Note is paid down, then another tranche of shares may be transferred from the Seller to the Coop-ESOP in return for another Note, and so forth until the business transfer is completed to some target level over a period of years.

Since the Coop-ESOP is not a retirement plan, there is no need to wait until retirement or exit for a worker to get their ICA paid down. One possible plan is to rollover the ICA entries after a fixed number of years, say, five years. Any five-year-old balance in a member's ICA would be paid out in cash, i.e., 'repurchasing' certain shares or percentage credited to the account five-years earlier). As those shares or percentages are repurchased, they are redistributed to the current member ICAs.

Figure 2: USING CONTINUING ESOP CONTRIBUTIONS TO PAY OUT AND ROLLOVER ICAs



Step 4: The Company makes regular (e.g., monthly) cash contributions to the ESOP.

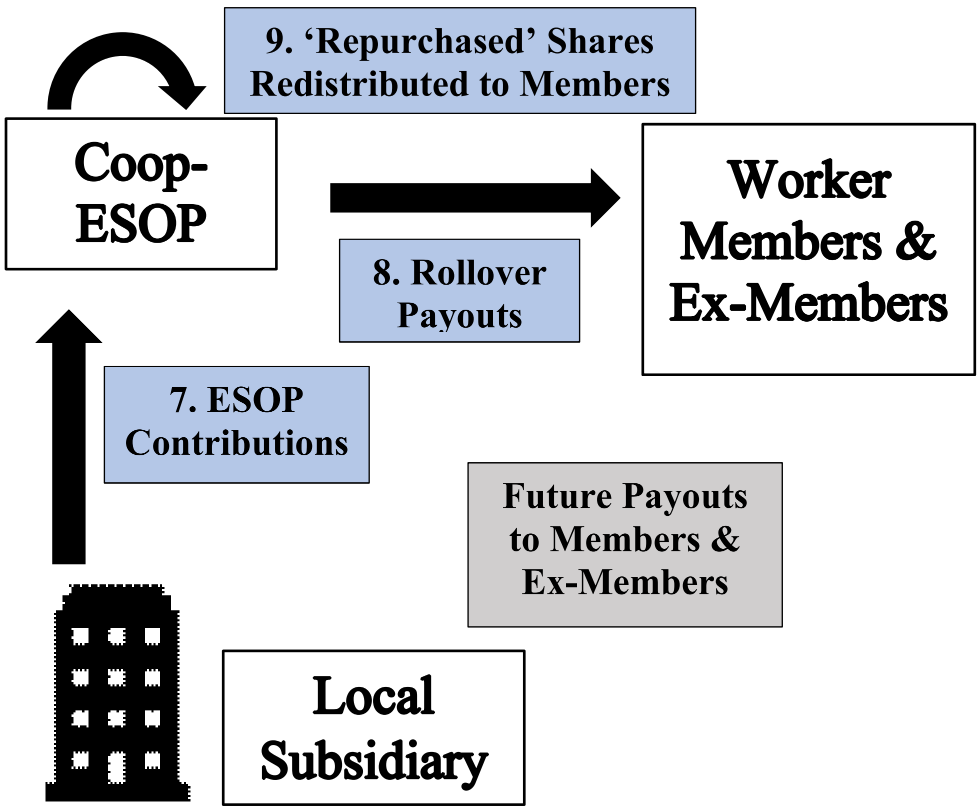
Step 5: The cash is passed through the ESOP to pay down the note from the seller.

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 worker share accounts usually according to overall pay for that time period.

This Rollover Plan would solve the problem of the older workers carrying so much of the risk (in their ICAs) raising doubts that the company could ever pay them off (and thus creating pressures to sell everything). The Coop-ESOP and Company would know X years ahead of time about the payouts. If a member retires or otherwise exits, their ICA is closed to any new credits, but their payout timing is unchanged—so there is no incentive to quit to trigger a payout.

Eventually, each member would be receiving two streams of income, one being the wages/salaries and the other being the ICA payouts for matured shares. This process of buying back and redistributing the shares can be conceptualized as the younger generation of workers slowing buying out the older generation—only to be eventually bought out themselves by the next generation. In anticipation of the financial requirements of this double income stream, it may be necessary to forego wage/salary increases to finance the payouts to the older workers—just as an individual would have to forego some take-home cash income to pay off a mortgage. And as an individual pays off a mortgage, they build up equity in the house, and similarly as the younger generation pays out the older generation's shares, those shares are redistributed to the ICAs of the current workers.

Figure 3: FUTURE TRANSACTIONS WITH MEMBERS AND EX-MEMBERS



Step 7: The ESOP contributions continue on a regular basis.

Step 8: After the seller note is paid off or when the ESOP has funds in excess of the note payments, then the ESOP starts to repurchase the oldest ESOP shares from the employees on a first-in-first-out basis.

Step 9: As the longest-held shares are repurchased from the member (whether still an employee or not), those shares are redistributed to the current employee accounts on the usual basis.

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