

# JustComment

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## Transforming society one business at a time – preserving jobs and businesses in challenging times

Mainstream criticism of capitalism continues as its unethical foundations are exposed in the unequal way wealth is distributed and the planet's ecosystems destroyed. Crucially since the Global Financial Crisis (2007-2009) there have been no new policy initiatives to address these damaging effects of macro neo-liberal economics. In order to face this problem going forward we need to come to accept, as a society, that we are using the wrong business model - the extractive limited liability company.

The journey to economic and social justice, solidarity and a more equal democratic sustainable world must come from micro economic reform, a commitment to change society from the bottom up, one business at a time, using the distributive business model where the worker-owned and governed worker cooperative is part of the solution. It meets the transformative criteria of wealth distribution, democracy and concern for the environment as it is guided by the seven cooperative principles: open and voluntary membership; democratic member control: members' economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and, concern for community and environment. The co-operative is the only business model endorsed by the United Nations. The task now is to develop a strategy by which an ownership transmission can occur on a large scale so as to create a stabilised just economy and broad based democratic ownership.

### Drawing from History

Associated with the oil crisis induced recession of the 1970's the phenomenon of the EBO - the Employee Buyout - came to prominence in the 1970s and 1980s when thousands of businesses including airlines, steel mills and paper mills and factories were rescued around the world by their workers taking ownership to preserve their jobs. The benefits of broad based co-operative ownership to community health, social cohesion, reduction in crime and divorce have been documented by Erdal (2000) in Italy.

In addition a performance increase and increased employment from an EBO are significant. In the USA, research indicated that an EBO delivered a 17% rise in productivity and a 23% per cent rise in employment growth (Winter and Marens 1997).



From a Christian viewpoint this worker centric approach has its roots in the Encyclical **Rerum Novarum** (1891) by Pope Leo xiii with its emphasis on justice, workers' rights, the dignity of work and the principle of subsidiarity - decisions are to be made by those who have to carry them out.

Now the current economic COVID downturn plus unexpected potentially favourable legislation in Australia provides an opportunity and pathway to revisit the EBO model and provide a strategy to restructure society one business at a time

### Outlining a Strategy

The route to business and social transformation using the EBO comes from three strategic directions which offer significant opportunities to transform society one step at a time when a business is sold or fails.

(i) *Business Succession*: when an owner of a business lacks a way out as the children have left, and there is the potential to sell to the employees whereby a worker co-operative or EBO can come into being in the transformation. A representative of Link Business Brokers, the largest in Australia commented "this was a good time for the EBO and an opportunity to do some good"

Michael Jones, comments on this EBO strategy:

*“The employee buyout is an ideal vehicle for owners (such as state owned enterprises, corporations or family firms) who don’t have their heart in the business any more, and they want out; where the EBO is a dignified way of getting out without treading on the employees. The EBO shifts the liability to a new entity where the owner can sell on the market. It offers a way to retire that is not normally considered, and even discouraged or seen as too hard.”*

There are some obstacles to be overcome: workers can be risk averse and generally lack access to capital and legal and accounting skills. Institutional support to deal with this has been developed. Australia had a successful best practice program in the 1970’s. The cornerstone of the success was the involvement of a credit union which advanced an unsecured loan of \$5000 to each worker in the EBO to assist in the purchase of the company.

(ii) *Insolvency*: in times of crisis the employees buy or take over an insolvent business where the owners often have walked away. Workers have a moral right to have their job protected in an insolvency but this failure to protect both jobs and entitlements is an intractable moral problem for the insolvency profession. Importantly the EBO is seen as thought leadership by members of the International Insolvency Practitioners Association.

Australian Prime Minister Howard, in a period of corporate collapse, established GEERS (General Employee Entitlements and Redundancy Scheme) in 2001 to protect employee entitlements. This was a morally flawed model. It encouraged workers to choose their entitlements over their job as the company had to be liquidated. It was unfair and unjust solution as no institutions were created to support an EBO as a viable choice.

Michael Jones however believes creditors in a Voluntary Administration could accept an employee buyout if a commercially better outcome could be shown saving both jobs and entitlements

In addition, Jones sees an opportunity for the EBO with the new insolvency legislation enacted on January 1st 2021 in response to COVID. The Small Business Recovery Plan is designed to assist small businesses with debts less than \$1,000,000. It will be enable a business to enter an arrangement that enables the insolvency practitioner to act as a consultant to plot the future of the business which could include an EBO,

(iii) *Enlightened Succession*: business people committed to building employee wealth, have worked out ways to

pass their very successful business onto their staff as a reward for their loyalty ( Ove Arrup and Partners, Fletcher Jones and Staff , John Lewis Partnership, Richer Sounds and Scott Bader Commonwealth ). These high minded owners are more likely to provide vendor capital to finance the transition. Some have sought more equitable ways to do business seeing the EBO as a better way to run a company and pass it on.

## Transforming Society One Business at a Time

Drawing on the past we see how the emergence of the co-operative movement was assisted by the Catholic Church. The Italian cooperative sector is around eight percent of the economy (up to 70% in some areas) and was given support in the 1890’s when Pope Leo XIII directed the Catholic laity to go out and assist workers form worker co-operatives in the face of the liberal market advance.

In Australia, the credit union movement was formed by Catholic priests initiating a credit union for their parishioners. Across the Asia Pacific the Jesuit Order have been instrumental in forming credit unions which have transformed local communities. Possibly this activism could now be directed to EBO formation at parish level.

Specific laws have been introduced to assist the EBO. The Marcora Law (1985) in Italy and Sociudades Laborales in Spain in the 1970’s set up support institutions which embodied Catholic social teaching on subsidiarity in institutions which support workers taking over failing companies. These provide a template for replicating in other nations EBO formation assistance institutions.<sup>1</sup>

## Humanity Working

Reshaping the corporate landscape is the most urgent justice project of our time. The last fifty years have seen a new system of co-operativism being outlined. The EBO is transforming capitalism into an economic democracy one business at a time by redesigning the firm in four key areas: the sourcing of capital; the stabilising of labour markets; the norms of ownership; and the stabilising of productive systems.

The booms and busts of capitalism will continue over the next 20-30 years as it bumps to a conclusion providing more opportunities for worker co-operative buyouts. This brick by brick approach becomes a catalyst for an escalating community awareness that building a new world from the bottom up is possible.

With thanks to **Anthony Jensen PhD**



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