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Growth of sociedades laborales (worker-owned companies) in Spain and the Basque Country

**Tesis para la obtención del título de posgrado de
Magister en Dirección de Empresas**

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Abstract

The concept of *Sociedades Laborales* (SLs) is unique due to its hybrid nature and the benefits this entails. Although their survival rate has been studied, there is still a vacuum regarding their growth in terms of employment. While the concept of SLs exists in all of Spain, the Basque Country and its Gipuzkoa Province are of particular interest due to their prosperous economy and availability of information. In this thesis, I used multiple different approaches. First, I applied the dynamic classification method to analyze the evolution of Spanish SLs and conventional companies. Second, I used the same method at the Basque Country level. Third, I carried out a cohort analysis of Basque SLs and Basque conventional companies. Finally, I described six case studies from the Basque Country which, while not representative of the whole population of SLs, illustrate firsthand how the SL model is performing in these companies. Findings indicate that SL Basque cohorts grow faster until year two, but then are surpassed by conventional firms; that there is no clear evidence that the SL model benefits companies of a certain size over the rest; that despite recent regulatory relaxations, the model still hinders growth due to restrictions on employment of non-owner workers. Despite these findings, I support that growth is obstructed by how the SL model is implemented rather than by a fundamental problem of employee participation as a concept.

Key words: Basque Country, Spain, social economy, *sociedades laborales*, employee participation, employee ownership, participatory companies

**UNIVERSIDAD CATÓLICA DE CÓRDOBA
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MAESTRÍA EN DIRECCIÓN DE EMPRESAS**

**GROWTH OF SOCIEDADES LABORALES
(WORKER-OWNED COMPANIES) IN SPAIN
AND THE BASQUE COUNTRY**

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Abstract

The concept of *Sociedades Laborales* (SLs) is unique due to its hybrid nature and the benefits this entails. Although their survival rate has been studied, there is still a vacuum regarding their growth in terms of employment. While the concept of SLs exists in all of Spain, the Basque Country and its Gipuzkoa Province are of particular interest due to their prosperous economy and availability of information. In this thesis, I used multiple different approaches. First, I applied the dynamic classification method to analyze the evolution of Spanish SLs and conventional companies. Second, I used the same method at the Basque Country level. Third, I carried out a cohort analysis of Basque SLs and Basque conventional companies. Finally, I described six case studies from the Basque Country which, while not representative of the whole population of SLs, illustrate firsthand how the SL model is performing in these companies. Findings indicate that SL Basque cohorts grow faster until year two, but then are surpassed by conventional firms; that there is no clear evidence that the SL model benefits companies of a certain size over the rest; that despite recent regulatory relaxations, the model still hinders growth due to restrictions on employment of non-owner workers. Despite these findings, I support that growth is obstructed by how the SL model is implemented rather than by a fundamental problem of employee participation as a concept.

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List of Abbreviations

- ASLE: *Agrupación de Sociedades Laborales de Euskadi* (Association of Sociedades Laborales in the Basque Country)
- DCM: Dynamic Classification Method
- EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization
- ESOP: Employee Stock Ownership Plan
- EU: European Union
- EUSTAT: *Euskal Estatistika Erakundea* (Basque Institute of Statistics)
- FEANSAL: *Federación Empresarial Andaluza de Sociedades Laborales* (Federation of Sociedades Laborales of Andalusia)
- HR: Human Resources
- INE: *Instituto Nacional de Estadística* (National Institute of Statistics)
- LLC: Limited Liability Company
- MEYSS: *Ministerio de Empleo y Seguridad Social de España* (Ministry of Employment and Social Security of Spain), succeeded in 2018 by MITRAMISS
- MITRAMISS: *Ministerio de Trabajo, Migraciones y Seguridad Social de España* (Ministry of Labor, Migrations and Social Security of Spain)
- NACE: *nomenclature statistique des activités économiques dans la Communauté européenne* (Statistical Classification of Economic Activities in the European Community)
- R+D: Research and Development
- SAL: *Sociedad Anónima Laboral* (Joint-Stock SL)
- SALTUV: *Sociedad Anónima Laboral de Transportes Urbanos de Valencia*
- SCP: *Sociedad Civil Participada* (Participated Civil Society)
- SL: *Sociedad Laboral*. Spanish literature uses SL to refer to *Sociedad Limitada* (non-qualified, conventional limited liability company), but for the sake of clarity, I shall refer to them using the English acronym LLC.
- SLL: *Sociedad Laboral Limitada* (Limited Liability SL)
- SME: Small and Medium Enterprises

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1 Introduction

My interest in this topic stems from my work experience. Since I entered the labor force, most of my positions have been at small businesses from different industries. The question on how to make these small businesses grow prompted me to study business administration in the search for tools that would stimulate expansion.

While I knew the concept of employee participation, I first formally studied it when I came to Germany. It offered a wide array of implementation options, each with a different degree and type of participation. The most interesting aspect to me was that its benefits seemed to create the right environment to facilitate growth.

One of the employee participation models I was presented with was that of *Sociedades Laborales*, which only exists in Spain. This unique hybrid concept combines the benefits of conventional companies and cooperatives. Therefore, given its potential to be exported to other jurisdictions, it is my aim to find out if Spanish *Sociedades Laborales* grow faster than their conventional counterparts.

2 Context

SLs are not a separate legal form such as LLCs and joint-stock companies, but a qualified form of these legal forms. In other words, a company that meets all the criteria to be registered as an LLC or a joint-stock company can qualify as an SL if they meet some additional requirements, which can be summarized as follows:

- At least 50% of its shares must be owned by working employees.
- No single shareholder may control over 33% of the company (exception: there can be only two owners during the first 36 months since the creation of the company; public organizations can own up to 49%).

- Non-owner employees can work up to 49% of the annual hours worked by owner employees.
- 10% of the annual net profits must go into a special reserve fund.

Given these key features, they can be considered as “an intermediate type of firm between conventional capitalist firms and worker cooperatives” (Croce et al., 2014). In other words, they strike a balance between cooperatives and their well-known restrictions (namely, the inability to raise capital from non-working investors when they are growing, making them a victim of their own success) and traditional capitalist firms with a clear-cut separation between owners and workers.

Due to this balance, one can argue that SLs are a tool that can boost growth and help newly created micro companies become small and medium businesses at a faster rate. SLs can profit from employee participation benefits (mitigation of agency issues, improved productivity and employee engagement, better employee retention, more economic resilience) while not completely renouncing the chance to profit from external capital and external professional management.

SLs have been used in the past as a tool to combat unemployment during an economic crisis (even though this was not their main purpose), proving to be a way to go from nothing to the creation of a micro company. On the other hand, they have been criticized as too rigid for companies to grow into larger companies: “...regulatory restrictions derive in negative consequences that outweigh the positive effects...” (Croce et al., 2014). Because of this, I have studied how SLs grow in comparison with conventional companies to analyze if the SL model has helped them grow through the different size brackets.

This topic is of importance considering most businesses start as micro companies. For instance, in 2015, out of the 90,460 firms that were created, 87,860 (97%) had 10 employees or fewer (Bel Durán & Lejarriaga Pérez de las Vacas, 2018), which means if SLs as a legal instrument could be adapted so that a large number of these new businesses can profit from the concept to grow faster, it would significantly boost the economy. This thesis helps extend the

knowledge on SLs and also provides useful information for policy makers who intend to import the model into other countries/jurisdictions.

3 Hypotheses

Despite its benefits, I observe that the concept of SLs has been losing momentum for the past few years. Some have attributed this to an overly restrictive regulatory framework (Croce et al., 2014), which could be refuted by the 2015 reform and the relaxation of requirements it introduced. Others have mentioned that the concept is either not known or not enticing enough, mentioning there could be more tax benefits to qualified companies (Bel Durán & Lejarriaga Pérez de las Vacas, 2018).

The main hypothesis of this thesis is that despite their waning popularity, SLs are an effective tool that boost growth. The current decline in newly created SLs could be reverted with a better promotion of the concept and a further simplification of the bureaucracy involved.

The second hypothesis is based on the possibility that that companies of certain size categories profit better from the SL model as a catalyst for their growth; for instance, micro and small businesses might use the model up until they grow into the medium bracket, which would indicate that SLs work as an incubator.

Finally, given that not all autonomous communities are the same, I will delve into SLs in the Basque Country, a special jurisdiction within Spain with tax autonomy, which allows local government to make adjustments to the SL model in order to improve its performance. Thus, the third hypothesis is that the Basque Country is better prepared and thus SLs fare better than in the rest of the country.

For the analysis, I have obtained data from SLs and conventional companies in Spain and in the Basque Country, besides carrying out some case studies also from the Basque Country.

4 Relevance of the Thesis

This thesis offers further insight into the SL model and how it has performed in the past few years in Spain and the Basque Country. It also presents some suggestions based on technical inconveniences encountered during the process. Its analysis can also be taken into account in case the SL model is to be adopted by other countries.

4.1 Deepening of Knowledge on the SL Model

This thesis provides further information about growth of SLs both in Spain and in the Basque Country. Both jurisdictions offer interesting information: Spain because it is where the concept first originated, and the Basque Country because they were able to modify legislation in order to meet their goals; besides, this autonomous community is considered to be a role model in terms of economic performance both in general terms and in the social economy.

By analyzing the growth rates of SLs and conventional companies, this thesis also puts the SL model to a test in order to prove whether its benefits are substantial enough as the theory suggests. The existing literature has also focused on how SLs have typically higher survival rates; however, by differentiating between survival and growth, the standard for the model is set higher. For instance, the motivation boost that employee ownership entails does not necessarily translate into a motivation to grow a company larger, as the working-owners could be satisfied with the current company size.

4.2 Technical Issues

Another contribution provided by this thesis is a description of all the technical inconveniences in the process of gathering and analyzing data. Not only have I encountered issues due to non-standardized data bases, but also in some

cases due to a complete lack of data on a phenomenon that I believe should be watched closely.

In the first place, not all statistics organizations in Spain use the same methodology to classify their data, despite the fact that they manage remarkably similar information. Some methodological inconsistencies were found within the same institution, which made the gathering and analysis of data particularly difficult. For instance, it was found that the classification based on activity can use different codes when analyzing SLs versus conventional companies. Besides, information for some activities was missing (or perhaps, only partially available), which rendered a comprehensive analysis per sector unfeasible within the scope of this thesis. A similar discrepancy was found for the classification of companies in size brackets: Not all aggregate data is presented using the same size brackets. Some provide size brackets that others do not (for instance, some include the category 100+ employees while others divide it into 100-249 and 250+). These issues could be solved by adhering to the standard classification methods in the EU or by allowing the public to narrow down the search with a more customizable interface.

Another issue was the lack of longitudinal data readily available to the public, which rendered a diachronic analysis of SLs more difficult. Upon consultation, it seems this information is simply not gathered by government organizations, unlike what happens in other regions such as the US, where complex analyses can be carried out thanks to a vast quantity and quality of data.

Finally, another problem encountered was the lack of information on disqualified companies, i.e. former SLs who were either dissolved or converted into conventional companies which are completely disregarded by the organizations in charge of statistical services. Given the interest in carrying the SL program forward, it seems natural to want to keep track of those companies that were no longer fit for it so that corrections can be made. However, there is no registry of disqualified SLs and thus their analysis is only restricted to some case studies or to a survey that was carried out after the fact and that is not comprehensive of all existing disqualified companies.

Upon bringing up these issues, I hope the availability of data improves in the future and, if this is not the case, I hope that this thesis helps other researchers to anticipate to these hurdles.

4.3 Transferability

This thesis also seeks to contribute information for those who intend to import the SL model into other jurisdictions. As previously mentioned, there are several benefits to employee ownership, and a deeper look into the results of its implementation in Spain and the Basque Country could help design the right policies in other territories. Given the evolution of this legal concept in Spain (from non-existence to regulation, and then, the 2015 relaxation) and given the peculiarities of the Basque Country situation (tax autonomy and the ensuing tax regulation tweaking that took place as the economic scenario changed), this thesis seeks to show whether these policies are backed by the data, namely, growth data.

Employee ownership can be a tool to reactivate the unemployed, and as such, be adopted in a struggling economy. In this sense, it could be imported into Argentina, a country that has struggled to grow for years and whose legal framework only includes employee ownership in the form of cooperatives but ignores the possibility of a mixed concept as the one from Spain. For instance, the case of the Bauen Hotel in downtown Buenos Aires “is both base and inspiration for Argentina’s worker cooperative movement” (Gilbert, 2014), and an example of how employee ownership struggles in the country. It was founded in 1978 and sold to a foreign investment group in 1997. The business did not do well thereafter and struggled until it filed for bankruptcy in 2001, amidst a national economic crisis. The building was sold but its employees continued operations nonetheless in the hopes of maintaining their source of income, since most were at an age where re-insertion into the workforce would be too difficult (Lucotti, 2019). The owner of the building took legal actions to evict the employees, a process which until 2019 was still underway (Infobae, 2019). Had it been possible

that an external investor joined the workers and provide the capital to purchase the building, then a solution could have been found.

On the other hand, employee ownership is not only a tool to combat unemployment, but also a way to foster entrepreneurship, regardless of what the unemployment rate is. Proof of this is the fact that according to a study of SLs in Andalusia, over 65% of the SLs that were surveyed did not receive funds from the capitalization of unemployment benefits (FEANSAL, 2012), which is one of the main features the SL model provides to foster the creation of companies by unemployed persons. In my thesis, I provide a global analysis of how all companies grew, regardless of whether they were set up by employed or unemployed workers.

Another reason to import the concept is securing the continuity of family businesses. According to a study carried out by Ernst and Young Argentina in 2019 (La Nación, 2019), 90% of SMEs in the country are family businesses, and they generate over 50% of the GDP. One of the most common issues they experience is succession: 4% survive the third generation and only 1% survives the fourth. In facilitating employee ownership and transferring the business to those who are committed the most, these percentages could increase significantly.

Finally, the SL model can be used to promote a more equitable distribution of the company's gains while giving the employees more participation in and, therefore, more identification with, the company in which they invest their work hours. In theory, this helps promote enterprises with a longer-term perspective of growth and a stronger sense of commitment. One of the key features of the Argentinean economy is its lack of long-term planning. On top of this, Argentina's Gini coefficient was 41.4 in 2018 according to The World bank Group (2018), which is not ideal. Improving the situation of employee participation could help both issues.

Regardless of the reason why a policy maker might want to import and adapt the SL model, this thesis provides valuable information on how the concept fared in Spain, what worked and what did not. Therefore, I hope it proves useful in adapting it into the receiving legal framework.

Since SLs are not a separate legal form but just a qualification a regular company can receive makes the concept easier to export. Argentina's law on commercial companies from 1984 (Ley General de Sociedades N° 19.550, 1984), for instance, includes the equivalent to Spain's *sociedad anónima* and *sociedad limitada*, under the names of *sociedad anónima* (joint-stock company) and *sociedad de responsabilidad limitada* (limited liability company). In 2017, a new type of company was created by combining the benefits of the two existing types into *sociedad por acciones simplificada* (simplified joint-stock company) (Ley de Apoyo Al Capital Emprendedor N° 27349, 2017). All three types would be able to undergo a qualification process should the SL model be adapted into the Argentinean legal framework.

5 Structure

This thesis is structured as follows. Chapter 2 deals with the concept of SLs in Spain, their history, and their regulatory framework; it also describes the current decline in SL registrations and explains why the Basque Country has been selected as a point for comparison. Chapter 3 starts with a description of the theory on growth, followed by how, in my opinion, growth and the SL model are connected; finally, it describes the current situation of SLs in the Basque Country. Chapter 4 describes the analyses undertaken for this thesis (research design), their inherent limitations, and results obtained. Chapter 5 provides a discussion of the results, comparing SLs with conventional companies in Spain, describing growth of SLs in the Basque Country and comparing SLs in Spain with SLs in the Basque Country. Chapter 6 sums up my conclusions on the topic.

II. The Concept of Sociedades Laborales in Spain

1 History of Sociedades Laborales

Sociedades Laborales (SLs) are a concept from Spain whose beginnings can be traced back to 1964 when Sociedad Anónima Laboral de Transportes Urbanos de Valencia (SALTUV) was created, “becoming a milestone in the history of enterprise collectivization” (Lejarriaga Pérez de las Vacas et al. 306–307). Since then, the concept and its legal framework have evolved through five different stages (Lowitzsch et al., 2017), with law 44/2015 being the latest piece of legislation to regulate SLs in Spain.

The first Sociedad Laboral, SALTUV, was the practical solution to a critical situation which would have otherwise resulted in the company going bankrupt. The processed this involved was, at that moment, not regulated by any specific law. With the passing of time, it became clear that employee ownership could be a way to systematically solve larger crises and could kick-start many projects that would have otherwise remained undone. The first SL law passed in 1997 starts declaring “The aim of obtaining new methods to generate employment [...] is a constant concern of society that is not unknown to legislators” (Ley 4/1997, de Sociedades Laborales, 1997), clearly emphasizing the potential of this model to create jobs as one of the fundamental elements behind the passing of the law.

1.1 The 1997 Law

The legal framework kept evolving since the creation of SALTUV in 1964 until the **1997 law on SLs** was passed. According to this first legislation (replaced in 2015 by a new law on SLs and participatory companies), requirements consisted of the following:

- Incorporation by at least three partners: The law indicated that at least three founding partners were required. This could have the benefit that as

a new business, owners would profit from the knowledge of others instead of starting a business alone, reducing the probability of failure, especially in the case of unexperienced entrepreneurs that might be investing their unemployment benefits and that have much at stake.

- No individual partner could hold more than 33%: This restriction ensures that no partner had control over general corporate decisions in the firm, making the organization more democratic by limiting the power of each owner in the organization.
- According to this first law, non-owner employees could work up to 15% of the hours worked by their owner colleagues. This limit was extended to 25% for companies with fewer than 25 worker owners. With this provision, the law ensured that most of the employees that work are also owners, leaving out the possibility that ownership might be concentrated in a small group within an organization where the vast majority are non-owner employees. This was one of the key points to be relaxed by the 2015 law.
- Preference order for the acquisition of shares: This preference is designed so that shares remain within the group of employees. Only in case there is no buyer among the employees (owners and non-owners) can the sale be advertised to third parties.
- Regulation of share transference in case an owner-worker ceases to work for the firm: This way, the law controls that those shares owned by employees who leave the firm stay within the firm unless no existing employee can acquire those shares.
- Special Reserve Fund consisting of 10% of yearly net profit: This fund is set up in order to ensure the firm's ability to support the purchase of shares by workers who are not owners yet.
- Correction deadlines in case of violation of requirements: The law foresees the possibility of a firm going beyond these limits and thus sets a deadline to bring values back to normal, meaning SLs do not automatically lose their qualification if they violate a restriction and have some leeway to make corrections.

The SL model can thus provide all the benefits traditionally associated with employee ownership, which have been summarized in Lowitzsch et al. (2017) as follows:

- Improved company management and communication: mitigation of agency problems: Given that owners and employees are in the same group, their interests are aligned and access to information is more symmetrical compared to traditional companies in which employees have limited access to strategic decisions and the information on which those decisions are based. This allows employee-owners to better assess the work of managers hired. Moreover, shirking is reduced due to peer control from fellow workers (Hyde, 1991; Robinson and Wilson, 2006).
- Improved operational efficiency: higher labor productivity and competitiveness: Related to the previous point, this alignment of interests causes employees to be better motivated to cooperate toward a common goal and strive for the company's overall success, rather than just looking after one's personal achievements. Consequently, it can be argued that SLs have a head-start on other companies as they have a better chance at becoming efficient as they tend to be more productive and profitable (Freeman, 2007).
- Improved HR management: better at recruiting and retaining talent: Due to SMEs small size and fewer resources, it is harder for them to attract and retain employees when compared to what larger enterprises can offer. SLs can compensate for this by offering their employees the opportunity to become owners, allowing them to actively participate in the company's decision-making process and entitling them to a part of the profits (Morris et al., 2006; Sengupta et al., 2007).
- Improved economic resilience: As explained in Lampel et al. (2010), some studies (Nuttall, 2012; Kramer, 2010) have demonstrated that employee-owned companies tend to have a steadier sales growth rate and a longer-term approach to operations, proving to be more stable. In other words, employee-owned firms are more averse to risk, and the SL model helps them achieve a higher level of resilience.

1.2 The 2015 Reform

The 1997 law was then replaced by a **new law on SLs in 2015**. Among the modified features, the following can be mentioned as summarized in Lowitzsch et al. (2017):

- Incorporation no longer needs at least three partners from the start: A company can be set up with only two partners, each holding 50% of the shares, during an initial 36-month transition period, during which a third owner must be found.
- The working hours threshold was modified in 2015 to allow non-owner employees to work up to 49% of the hours worked by employee-owners, as opposed to the 25% established by the 1997 law.
- Financial assistance for the purchase of shares is now allowed via a special reserve fund, facilitating the acquisition of shares by new employees when the price is not within their reach.
- Modification of share acquisition priority: The 2015 law gave preference to those owner-workers who owned fewer shares over the rest.
- Extended deadline for share transference upon employment termination: Former employees have now one month to offer their shares after their employment status was terminated.
- The special reserve fund is now capped at 200% of social capital and can be used to help non-owner-workers acquire shares.
- Disqualification deadline: overall relaxation of deadlines to rectify violations that lead to SL disqualification.

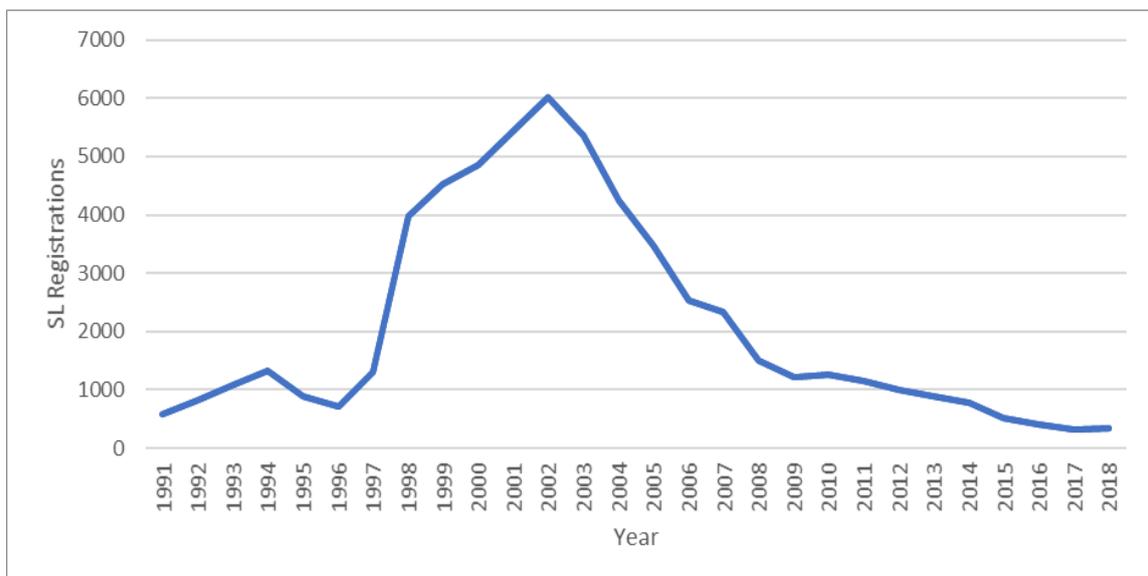
This law also introduced the concept of a participatory company ("*sociedad participada*", not to be confused with Basque *sociedad civil participada*, SCP), which is a non-qualified form that could be considered as a half-way point between SLs and traditional firms. They do not meet the criteria to qualify as SLs, but they still encourage employee participation in social capital, in profits and/or in decision making at some level. This reform sought to foster the creation and development of such companies as well, rather than just focusing on qualified SLs only.

If implemented correctly, participatory companies could help maintain a certain degree of participation in those cases where the SL model, even after the relaxation of its requirements, is still too restrictive and hinders the proper performance of a business.

2 Decline of SLs over Time

Throughout the years, the popularity of the SL concept has fluctuated greatly. Upon analyzing Figure 1 below, one can notice that few SLs were registered in Spain in the years prior to the 1997 law. After this legislation was passed, the number of new companies under this legal qualification skyrocketed to 6,013 in 2002. From that year onward, the number of new SLs waned continuously. It is worth mentioning that this decline was not stopped by the 2008 crisis, contrary to the rise of SLs one might expect given that “employee-owned firms, especially worker cooperatives, are more likely to be established when there is an economic downturn” (Logue & Yates, 1999).

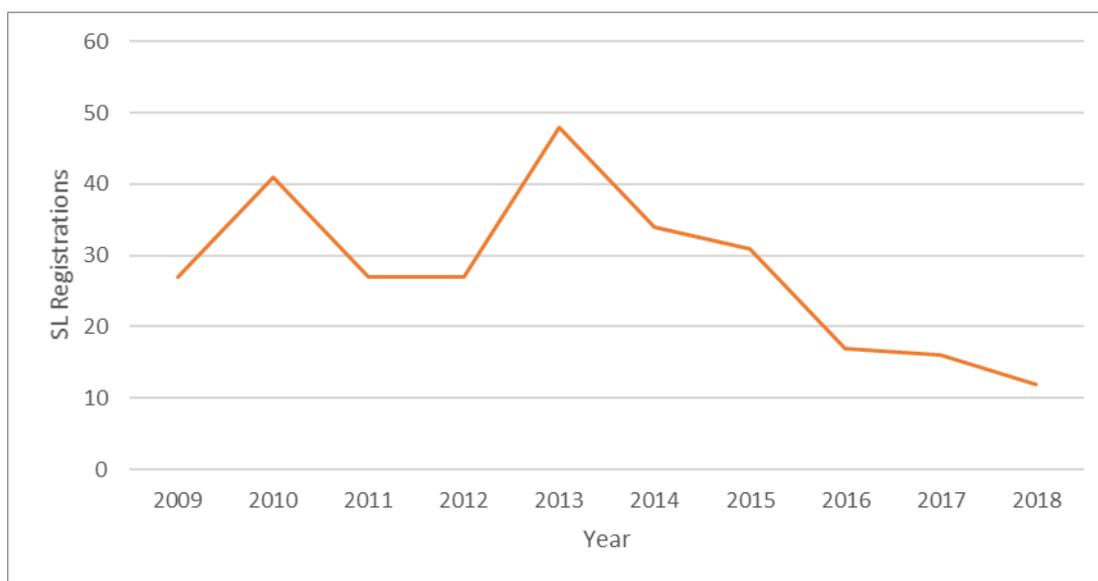
Figure 1 SL Registrations in Spain vs. Year (1991-2018)



Note. Own elaboration with data from MITRAMISS (2019)

A similar decline can be observed in the Basque Country, one of the most prosperous jurisdictions in Spain. The number of new SL registrations has been lower every year since 2013 (refer to Figure 2 below).

Figure 2 SL Registrations in the Basque Country vs. Year (2009-2018)



Note. Own elaboration with data from EUSTAT

In line with this drop in popularity, some have pointed out that ownership is not that important a factor. Some literature indicates that good results could be achieved regardless of the ownership structure and focusing on employee participation, namely, shop-floor participation (Galilea Salvatierra et al., 2002). Although this paper deals with cooperatives as opposed to capitalist firms, many points are still valid for the analysis of SLs, such as the fact that “employees generally have limited wealth and hence may have trouble in financing labor-managed firms by themselves” (Galilea Salvatierra et al., 2002).

Other studies, such as Croce et al. (2014) have provided additional evidence to show that “regulatory restrictions derive in negative consequences that outweigh the positive effects [of SLs] expected by most authors”. In this article, the authors are pointing to how the 1997 law had already grown old and needed to be updated. It is unknown to me whether this study directly triggered the 2015 reform, but its ideas were aligned, since legislators designed the new law to specifically make the legal framework more lenient and thus, more appealing.

According to Bel Durán & Lejarriaga Pérez de las Vices (2018), 5.5% of all active micro-LLCs in 2016 did not qualify according to the 1997 law but did qualify under the new regulations, thus bringing the percentage of qualifiable micro-LLCs up from 23.61% to 29.18%. Although this did not mean that those companies would automatically apply to become SLs, it did indicate that the SL status became accessible to more firms.

Upon analyzing Figure 1 and Figure 2 again, one can conclude that the 2015 reform was not able to overturn the decline in new SL registrations despite its newly introduced flexibility. After discussing this phenomenon with ASLE, a Basque non-profit organization whose aim is to support SLs, they suggested this paradoxical lack of popularity despite the more lenient requirements could be explained by how the statistics are generated. The SLs that are accounted for are those in the social security regime, and those SLs registered with two founding partners (as allowed by the 2015 law in its effort to the qualification requirements), are not mandated to apply for a registration number in the social security regime. This would also suggest, however, that these companies are not growing or at least, they are not finding a third partner within the 36-month period stated in the law, or else they would appear in the registry.

Another aspect to consider when analyzing SLs and how the concept affects companies and the overall economy is the classification of companies according to their activity and size. The Statistical Classification of Economic Activities in the European Community establishes 21 first-level industry codes, each with multiple subcategories into which each company falls according to their main activity (European Parliament, 2006). This standardized classification called NACE allows the comparison of a company's performance with that of its sector, which is fairer than comparing it with the whole population of companies, most of which might be affected by other sector-specific situations.

Companies are also classified according to their size by the European Commission as follows: Micro, small and medium enterprises ('SMEs') are those that employ fewer than 250 persons and have an annual turnover of up to EUR 50 million and/or an annual balance sheet of up to EUR 43 million. Small enterprises are defined as having fewer than 50 employees, an annual turnover and/or annual balance sheet not exceeding EUR 10 million. Micro-enterprises are

defined as enterprises that employ fewer than 10 persons and whose annual turnover and/or annual balance sheet total do not exceed EUR 2 million (European Commission, 2014). Consequently, any firm exceeding these limitations can be considered a large firm. This is summarized in Table 1 below.

Table 1 Enterprise Categories by Size

Category	Employees	Annual turnover
Micro company	< 10 persons	< EUR 2 million
Small company	< 50 persons	< EUR 10 million
Medium company	< 250 persons	< EUR 50 million
Large company	> 249 persons	> EUR 50 million

Note. Own elaboration with data from European Commission (2014)

Both the NACE and the size classifications could be factored into the SL analysis in order to determine whether the model is more effective for certain companies. In this paper, I have focused on the size analysis to study aggregate data and I have used the sector classification for the case studies.

Despite the decline in new SL registrations, and in light of the 2015 reform as an attempt to keep the concept of SL as an important part of the Spanish economy, I consider the benefits of SLs are worthy of further studying. There are signs that this decline is due to implementation reasons (e.g. lack of promotion), and while there is still room for improvement, the model can be improved by tweaking the legislation so that more firms can profit from the benefits of employee participation in all its forms.

3 Focus: The Basque Country

The Basque Country is one of Spain's 17 autonomous communities. Located in the North, in 2019 it was the place of residence of over 2 million citizens according to the latest data from the Basque Institute of Statistics

(Instituto Vasco de Estadística, 2019). The Basque Country has a strong cultural identity, which has been reflected by its history and its separatist movements. Cultural differences are so deeply rooted that they even affect language; the Basque Country has two co-official languages: Spanish, like the rest of Spain, and Basque, a language whose origin remains unclear as it has no connections with any other living languages (Calderon, 2019).

This autonomous community consists of three provinces: Alava, Biscay and Gipuzkoa. This means government has 5 levels: EU, Central Government (Spain), Basque Government (autonomous community), Provincial Councils (each of the 3 provinces) and Municipalities (at city level).

As opposed to other areas in Spain, the Basque Country opted for industrialization instead of tourism, and this was boosted by the fact that the area is rich in natural resources. This industry quickly internationalized, turning it into a success story (Cooper, 2012). According to Spain's National Statistics Institute (INE), in 2018 the GDP per capita of the Basque Country was €34,079, which is 31.8% higher than the national GDP per capita in the same year (€25,854). Being highly industrialized and one of the richest areas of Spain, the Basque Country also has high wages and high labor productivity when compared with the rest of the country, and the unemployment rate is lower (Zubiri, 2014).

The Basque Country's success is also reflected in the social economy, as they are home to the Mondragon Corporation, the world's largest cooperative group which was established in 1954. It included over 280 companies and employed over 80,000 people in 2018 (Mondragon Assembly, 2018). The case of this cooperative group has been widely studied by scholars around the globe.

The Basque Country actively supports employee participation in companies. The province of Gipuzkoa, for instance, has proposed a model based on three approaches (Aizpuru Murua & Agote Alberro, 2016): First they focus on people and knowledge and seek to create a space where economic competitiveness is reached through people's training and education. The second approach focuses on three types of sustainability: economic, social and environmental, thus ensuring that competitiveness, innovation, social cohesion, employment and the environment prevail. A third approach consists of economic

reactivation, promoting sustainable entrepreneurship. In this sense, they consider participatory companies a key tool as they boost competitiveness and help with wealth distribution.

Another prominent feature of the Basque Country as explained in Zubiri (2014) is its unique tax regime under the Basque Economic Agreement, which grants them an exceptional degree of autonomy that allows the Basque Government and the Provincial Councils the ability to pass their own tax legislation to better achieve their goals. The only other autonomous community in a similar situation is Navarre, under the Navarre Covenant Regime; all 15 remaining communities are subject to the “common system of financing”.

In the common system, autonomous communities are assigned funds by the Central Government according to need. Since 2009, this need is calculated by factoring in all basic services provided by autonomous communities: education, health, and social services. Each community must devote 75% of their tax collection to these services, and the remaining amount is provided by the Central Government. This amount is called “sufficiency transfer” and can be positive or negative (if the community collected more taxes than they need to spend in basic services). Communities under this regime have no control over certain aspects such as corporate income tax, which is fully within the Central Government’s jurisdiction, or personal income tax, which is 50% under the control of the Central Government. Moreover, most of the remaining taxes are collected by the Central Government.

On the other hand, the Basque Economic Agreement is a system in which all taxes are collected by the community itself and then, according to their relative wealth, a sum is paid to the Central Government. Thus, the equation is not based on need but on capacity. This grants the Basque Country a significant degree of autonomy to design their taxation system, but it also shares the burden as the community has to bear all costs of tax collection (possibly encouraging efficiency within the Basque Government). Under this regime the community has, for instance, full control over the structure of corporate income tax and personal income tax.

Thanks to the Basque Economic Agreement, tax reforms carried out by the Gipuzkoa Council in 2016 and 2020 were possible. In 2016, the government sought to foster employee participation in companies as a way to encourage investments while preventing delocalization, a threat in today's globalized world (Diputación Foral de Gipuzkoa, 2016). Four years later in 2020, the government introduced more tax reforms to mitigate the impact of the Covid-19 pandemic and try to reactivate the economy (Diputación Foral de Gipuzkoa, 2020).

Another feature of the Basque Country that is key to this thesis is the availability of information. Given that Spain has a decentralized system, there exist several publicly funded data sources both at national and community levels whose access is relatively easy, although at times, the data bases are set up using different parameters which hinders a proper comparison. In the Basque Country, however, not only is there access to the local statistics institute, EUSTAT, but also to ASLE, a non-profit organization that supports SLs and works closely with them. This has facilitated both access to more information about local companies and its interpretation.

Given its exceptional economic results and its ability to modify legislation more freely and thus faster adapt to changes, the Basque Country is a model worthy of analysis. Its advancement is made evident, for instance, in the fact that the Gipuzkoa province has already started implementing the ESOP concept from the US in the form of SCPs ("participated civil society"). Features from the SL model in the Basque Country should be taken into consideration for the rest of Spain and other countries who intend to import the model.

Moreover, access to information in the Basque Country allowed me to carry out case studies. This has given me a glimpse of what happens when a company cannot grow due to the SL qualification restrictions, a point of major criticism within the model. This is particularly interesting given the introduction at national level of the concept of participatory companies in 2015, and although further research is needed, it could potentially be a solution to the SL model's shortcomings.

III. Theoretical Framework

1 Growth Theory

For the purpose of this thesis, the term growth makes reference to the positive or negative relative change of a firm's size in terms of payroll (number of employees). It is, however, an extraordinarily complex phenomenon: It is affected by the interplay of a multitude of factors of varying importance, and its measurement can be done using different indicators, sometimes offering opposing results. Growth can be studied on a case-by-case basis, or with aggregate data from a population of companies, but the results usually cannot be directly generalized to other companies due to the aforementioned complexity of the phenomenon. This is a consequence that stems from the nature of firms themselves, as explained in Penrose & Pitelis (2009) "Because of its complexity and diversity, a firm can be approached with many different types of analysis—sociological, organizational, engineering, or economic—and from whatever point of view within each type of analysis seems appropriate to the problem in hand."

In the following sub-sections, I present a summary of the theory of growth and how it can be studied according to the existing literature, taking into account stages, measurement methods and the most important factors.

1.1 Growth Stages

The literature offers a multitude of models that define stages firms go through while growing. These models often assume a linear path that can be criticized for being too theoretical. According to the analysis carried out in Levie & Lichtenstein (2008), from 1962 until 2006, 104 different models were published. They all have a definite number of stages, each of them characterized by a defining element (for instance, stages being triggered by overcoming a particular challenge).

Levie & Lichtenstein (2008) identified that most of these models originate from just a few “source nodes”, i.e. models that were later modified to spawn new versions of it. These source nodes are:

- Greiner’s “Evolution and Revolution”: Consists of five predictable stages firms go through that include interlocked periods of calmness and unrest, leading up to an unknown sixth stage.
- Christensen & Scott’s “Stages of Corporate Development” defines stages that go from a simple organization to a more complex firm.
- Normann’s “Morphogenesis” makes emphasis on environmental conditions and proposes four different stages.
- Lippitt & Schmid’s “Organizational Life Cycle” is centered on the idea that companies go through life cycles as if they were living organisms, although these cycles are not predictable as in other living beings.
- “The product life cycle”, which also compares firms to organisms and, as such, are mortal.

Since there seems to be no consensus and some of the models are even industry-specific, this thesis has not taken them into account in the analysis.

1.2 Growth Measurement

Many indicators could be used to measure a firm’s growth; among them are market capitalization, asset value, market share, profits, sales, and employment. However, not all of them might lead to the same results while studying a company. For instance, a firm may increase its profits not because it grew larger but because it reduced its costs thanks to the introduction of a more efficient process. Similarly, a company’s market share could grow because a competitor went bankrupt, without any actual growth having taken place.

The second issue with these indicators is their availability. Some are not publicly available and gathering them can be an extremely time-consuming task, and even if one were to individually contact each firm, they could refuse to provide the data if they deem it sensitive information. Sales numbers, for instance, are

publicly available only when a company is publicly traded so that actual and potential investors can learn about the company in which they are investing, but this is not the case for privately held companies whose shares are not offered to the general public. The availability issue is even greater when studying smaller companies whose reports might not be accurate or which might not have the resources (namely, time) to gather and submit the data.

For these reasons, employment can be considered the most efficient way of studying growth. Most jurisdictions have publicly available statistics based on employment data that governments regularly update. This method, however, is not perfect. Employment statistics usually do not include workers registered as autonomous or independent workers; for instance, the study on Spanish SLs in Lowitzsch et al. (2017) states that “official employment figures do not capture independent workers which are estimated to account for between 15% and 25% of overall employment”.

Another benefit of using employment as main indicator is that it is one of the two variables used by the European Commission to classify companies in size categories (refer to Table 1). This classification is used by most statistical services providers, which facilitates comparing information across data bases from different institutions. Although ideally growth is best studied with longitudinal data at company level, given that such precise data is so difficult to obtain, available aggregate data on employment from these institutions is also useful for analyzing the growth of a population of companies.

1.3 Growth Factors

According to Storey (2016), small business growth can be analyzed from three approaches: the entrepreneur, the strategy, and the firm. Later, a fourth approach considering external factors was added.

Factors pertaining to the entrepreneur refer to the owner’s personality traits, and how these may have an impact on the development of the business. According to this theory, entrepreneurial factors are motivation, education, ownership and management experience, number of founders, ethnicity and race,

age (of entrepreneur), and gender. As summarized by (Fadahunsi, 2012), gender, and ethnicity and race by themselves have not been found to be of importance when analyzing growth. On the other hand, the other factors should receive more attention. Higher education, prior ownership and management experience, and higher number of owners have been linked to faster growing businesses. As for age, middle-aged entrepreneurs have been considered as having both the experience and the resources to grow a business faster (Storey, 2016). Motivation to grow has been found to be a defining factor, as the attitude of those involved translates into the firm's performance.

Factors that relate to the firm are defined in Storey's framework as those about the business configuration, and they are usually decided upon foundation. These have an impact on how the firm is managed as they set the grounds for the organization's dynamics. Namely, these factors are sector, location, size, and ownership form. The age of firm is also included under this category. Their importance when analyzing growth is more controversial. Location (typically, rural versus urban) and sector have proven that individual case studies need to be carried out, as no clear-cut conclusion is usually possible. Younger firms have been thought of as more prone to fast growth, although it was also found that they "are not significantly more likely to grow than more established ones" (Fadahunsi, 2012). Smaller firms are usually reported to grow faster than larger ones; however, a 2008 study by the US Small Business Administration (USSBA, 2008) found that most jobs were created by small firms with 20 or more employees. As for ownership form, i.e. the legal structure of the business, Storey (2016) found that limited liability companies tend to grow faster than other legal entities, but Fadahunsi (2012) posed the question whether incorporation is the cause of growth or just its consequence. In other words, companies might be registered under a certain legal form when they have grown large enough.

Strategy factors are those decided upon once the business is already in operation and pertain to the sensible use of available resources. This is one of the key aspects that set small businesses apart from larger companies, as the former usually struggle with more limited resources while for the latter, for instance, skilled labor and capital are more readily available. Into this category fall workforce training, management training, marketing strategy,

internationalization, technical resources, planning, external advice and support, and financial resources. According to the findings of Savery & Luks (2004), firms that intend to grow are more likely to increase training for their workers; however, it is worth mentioning that training is more frequent in larger companies, so it might be a cause or a consequence of growth. Something similar occurs with planning, since long-term planning can be associated with growing companies, but it can also be a necessity that arises when a firm becomes too large (Fadahunsi, 2012). As for management training, Storey (2004) found that “there is currently no satisfactory assessment of the link between small firm, formal management training and firm performance”; such a controversial finding suggests that a link with growth and performance might exist but is not linear. Regarding marketing strategy, Fadahunsi (2012) indicates that faster-growing small firms tend to focus their strategy on innovation rather than price. Internationalization has also been found to have an impact on boosting growth, even though smaller firms have fewer resources to reach foreign markets. The adoption of sophisticated technology is also said to help growth, although Fadahunsi (2012) raises the question as to what is considered technology, since each sector and company can use the term for different elements. Finally, financial resources are usually a requirement for growth, and since external funding is usually hard to obtain for smaller firms, “small businesses in which owners are willing to share equity tend to be reported to be more likely to grow” (Fadahunsi, 2012).

Environment factors also play a role in how a company performs and, therefore, how it grows. Long has been written about tools to analyze it, such as the SWOT framework, designed in the 1960s, which includes the “opportunities” and “threats” categories for the positive and negative aspects surrounding a business. There is also the PEST framework, which provides four main categories (political, economic, socio-cultural, and technological) for dissecting the environment. Later on, multiple variants of the PEST model were developed to include more categories, such as legal and ecological factors. Smaller firms are particularly affected by their surroundings because they have “comparatively limited opportunities to influence their environment” (Fadahunsi, 2012). Consequently, faster growing firms tend to be located in more favorable

environments where, for instance, policies are directed toward boosting growth and the economy as a whole is expanding.

2 Sociudades Laborales and Growth

The SL model has unique features that, in theory, could help firms that qualify as such perform better and, therefore, be more prone to faster growth. The reason for this model to be particularly advantageous is the fact that it is an intermediate solution between cooperatives and traditional capitalist firms (Croce et al., 2014). This means they profit from the best of both concepts: all those traditionally associated from employee ownership together with the possibility of raising private capital and hiring professional management that will be closely monitored. They are thus placed at the center of a continuum whose ends suffer from the disadvantages of their design. Namely, cooperatives have trouble raising private capital because they only allow each member to have equal voting rights despite the amount of capital contributed to the organization, discouraging external capital owners from investing in the company, which would require that they contribute capital in exchange for little power that does not compensate for the investment and the risk it entails. Traditional capitalist firms, on the other end of the continuum, draw a clear line between owners and employees, thus separating interests and increasing conflict within the organization that could hamper its growth.

Figure 3 Continuum between Traditional Capitalist Firms and Cooperatives



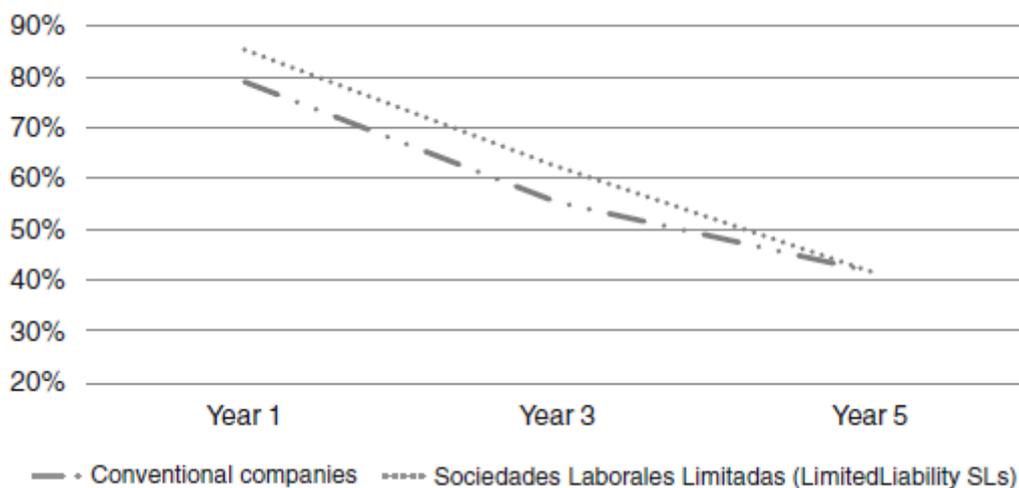
Note. Own elaboration

Because of this special configuration, SLs have been studied from different angles to verify how they perform compared to other types of companies. The most relevant approach within the framework of this thesis on growth relates to SLs' survival rates, since growth and survival are related, even though they are not the same.

2.1 Survival Rate of Sociedades Laborales

One of the key aspects that has been analyzed about the SL model is their survival rate and how it compares to conventional companies. In this sense, Lowitzsch et al. (2017) analyzed data from INE and MEYSS to look into SLLs (qualified LLCs) and conventional LLCs founded between 2005 and 2011. According to their findings, 88% of SLLs in Spain survived one year after their foundation; 63% survived after three years and 49% after five years. The results are summarized in Figure 4 below and are compared against those of conventional firms.

Figure 4 Survival Rates of SLLs and Conventional Companies Founded in 2005-2011 in Spain



Note. From Lowitzsch et al. (2017)

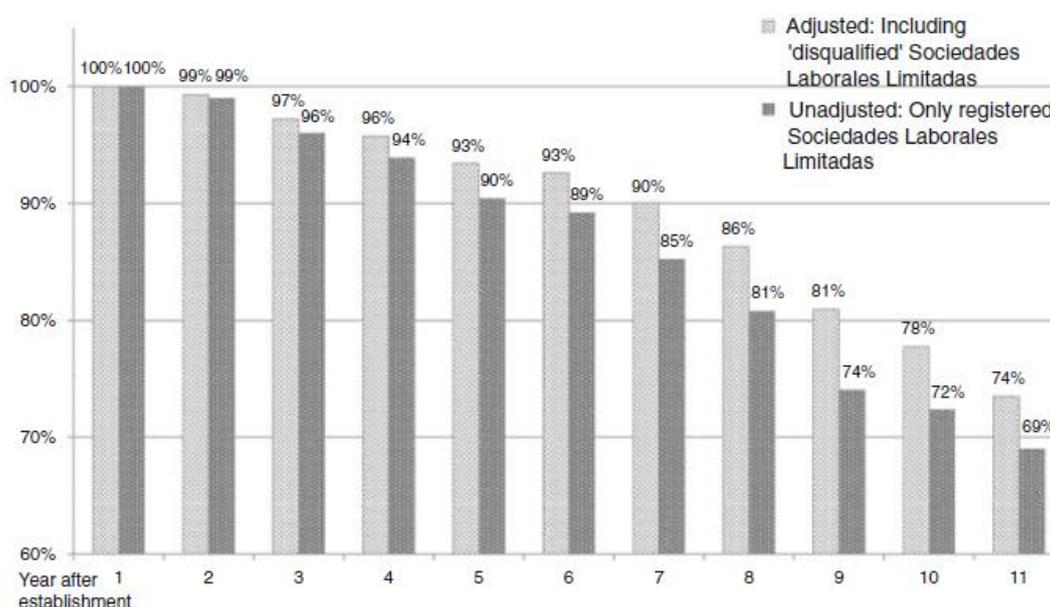
As noted by the authors, it is worth mentioning that data from INE includes both conventional companies and SLs, and even though SLs represent a small proportion of the total, results are slightly biased toward indicating that conventional companies survive longer.

Lowitzsch et al. (2017) also studied survival rates in the Basque Country. They were able to adjust their results to include those SLLs (limited liability SLs) that had disqualified as such and continued operations as conventional

companies. These would have otherwise been shown as non-survivors, as they disappear from the SL database.

After analyzing the 2003 SLL cohort over a 10-year period, the authors found that without including disqualified enterprises, survival rates could be biased by up to 7 percentage points. Even as early as year three, the first differences can be noticed as the number of disqualified companies starts growing. The adjusted and unadjusted results are presented in Figure 5 below.

Figure 5 Survival of 2003 SLL Cohort in the Basque Country over 10 Years



Note. From Lowitzsch et al. (2017)

2.2 Survival versus Growth

Survival is close to growth in the sense that without the former, the latter is not possible. The results from Lowitzsch et al. (2017) already indicate that SLLs tend to be active longer than conventional companies, especially if disqualified companies are taken into account. Moreover, the fact that their findings arise from analyses that span over the World Financial Crisis of 2008 and the following years of economic hardship is also a good sign for the SL model.

One could argue that growth and survival are thus positively related. However, the survival of a firm does not necessarily translate into growth, as a company can maintain its size, shrink, or alternate between growth and shrinking without making any substantial progress when compared to the starting point. As per the findings in Smallbone et al. (1995), “growth is often a discontinuous process in SMEs”.

The key differentiating factor is motivation. While most legitimate businesses seek indefinite survival (the most notable exception being businesses that are set up for a specific purpose and are dissolved once this is fulfilled), only a part of them truly seek growth. As mentioned earlier in section 1.3, while it is not the only determining factor, motivation to grow among those who manage a firm is a key element for growth since it directly translates into the business strategy, which then might or might not be successful, but at least determines the direction in which decisions are taken, and how the organization will respond to external forces.

2.3 Sociudades Laborales as a Growth Catalyst

Due to their hybrid nature mentioned under section 2, SLs are theoretically better suited to allow growth should this be their goal since they positively influence many of the growth factors that have an impact on the development of the firm.

In this sense and based on the growth-defining entrepreneur factors according to Fadahunsi (2012) described under section 1.3, the SL model boosts most of them. First, due to the alignment between the workers’ and the organization’s interests, it should be easier for an SL that is seeking growth to actually obtain it. As for education, SLs per se do not have an impact on the education of the company’s owners (they do not inherently encourage higher educated people to create businesses), but they do provide training through non-profit organizations that are set up to specifically accompany SLs and their owners.

Since SLs allow for the capitalization of unemployment benefits, one could argue that they encourage entrepreneurship among skilled workers, thus increasing the previous owner/managing experience of their worker/owners, which is another factor linked to faster growing businesses. This could also be related to age (of the entrepreneur), another factor that can influence growth as middle-aged founders tend to own faster-growing companies (Storey, 2016).

SLs also foster the creation of companies by more partners due to the minimum number of founding partners restriction. Although the correlation between these two factors is not linear, it has been found that businesses with more owners tend to have a faster growth rate (Morris et al., 2006).

Pertaining to the firm factors, since their impact on growth is not that clear, it is hard to estimate what impact the SL model could have to aid or restrict growth. Perhaps the only element that could be mentioned in this sense is legal form, as it was found that LLCs tend to grow faster than sole proprietorships (Storey, 2016), and SLs by definition cannot be a sole proprietorship.

As for strategy factors, the SL model is designed to facilitate training for worker-owners, which could be considered a cause or a consequence of growth, as previously mentioned. In the case of SLs, one could argue that it is more a cause since non-profit organizations set up to accompany and support SLs work with companies from the start, meaning they help them grow since their earlier stages. The opposite would be true if these institutions were mere training providers that only catered for larger companies that can afford their training programs.

Another strategy factor that SLs target is the availability of financial resources. This has been one of the most criticized aspects of cooperatives, which struggle to obtain external financing once they reach a point in which their partners can no longer keep up with the need for funds. On the other hand, not only do SLs provide the opportunity to capitalize on unemployment benefits at the start to facilitate the initial capital needed to set up the business, but also, they allow external investment to a certain degree. Moreover, the SL model allows companies to transition into conventional companies without changing their legal status. This disqualification means a company can go over the restrictions if

needed and then continue to operate, as opposed to a cooperative that would require a deeper legal structural change.

Finally, environmental factors are also a key to growth, and because SLs have separate regulations that seek to help them, it could be argued that they are better prepared to adapt to their environment. This is especially true for companies in the Basque Country, which not only are set up in an economically successful and internationalized area (both important factors for growth), but also have been backed up by a regulatory framework that has been fast enough to respond to external elements such as the Covid-19 pandemic in 2020. Because of this, one could expect SLs in this autonomous community to be able to grow at a faster pace than both their conventional counterparts and the SLs from the rest of the nation.

2.4 Sociedades Laborales as Incubators

Although in theory SLs are supposed to thrive, their numbers have not been positive in the past years. The SL model has been criticized by some authors as being too restrictive to a point that the negative effects outweigh the positive ones (Croce et al., 2014). And despite the requirements relaxation the 2015 law brought about, it is true that the number of new SL registrations has not picked up, which could be interpreted as a sign that the reform was not enough. Moreover, as indicated by Bel Durán & Lejarriaga Pérez de las Vacas (2018), in spite of the signs of recovery displayed between 2013 and 2016 by LLC registrations in Spain, SLLs did not follow the trend, meaning the overall economic recovery of the country did not help to create new SLs either (see

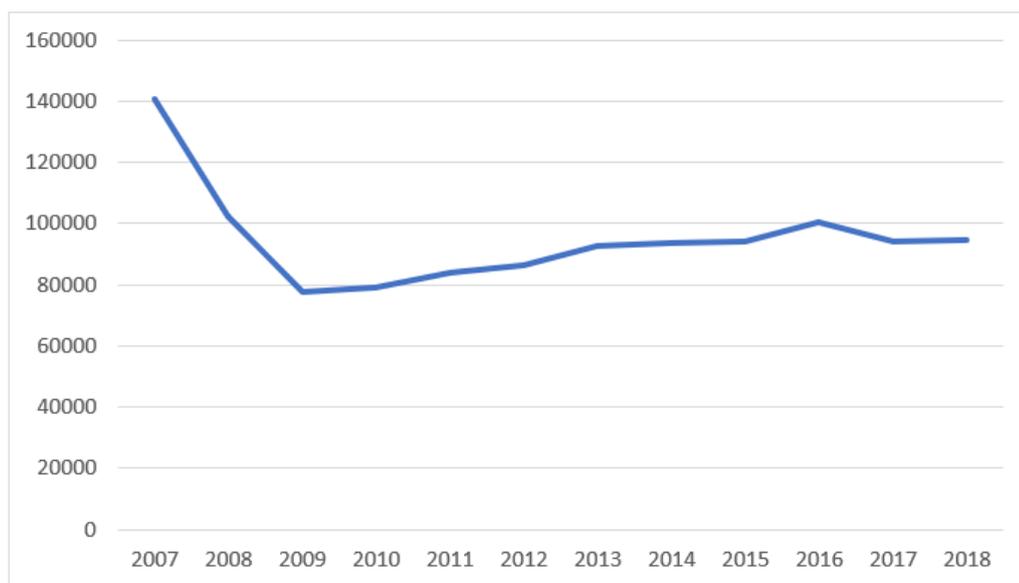
Table 2, Figure 6 and Figure 7 below).

Table 2 Number of Sociudades Laborales and Conventional LLCs Registered per Year in Spain

Year of Registration	Sociudades Laborales	Conventional LLCs
2007	2 341	140 815
2008	1 514	102 247
2009	1 225	77 393
2010	1 252	79 202
2011	1 145	84 137
2012	1 006	86 591
2013	892	92 859
2014	770	93 439
2015	515	93 982
2016	417	100 456
2017	331	93 911
2018	347	94 662
2007-2018 variation	-85%	-33%

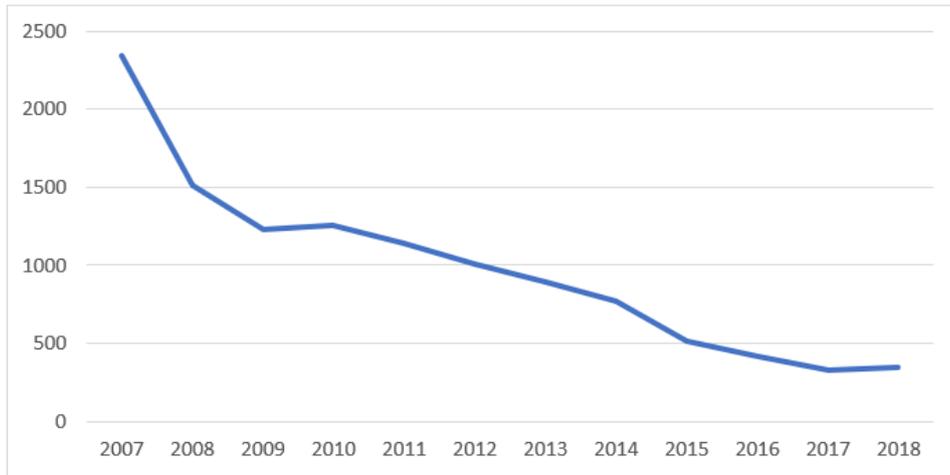
Note. Own elaboration with data from MISTRAMISS (2019) and INE (2020)

Figure 6 Conventional LLCs Registered per Year in Spain



Note. Own elaboration with data from INE (2020)

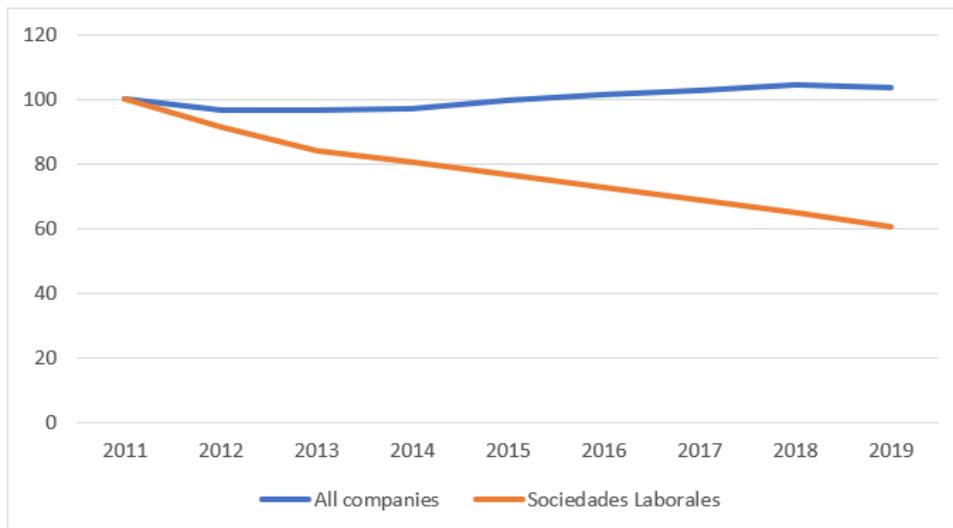
Figure 7 *Sociedades Laborales* Registered per Year in Spain



Note. Own elaboration with data from MITRAMISS (2019)

This is evidence that either the concept has room for improvement or that it might not be as beneficial to all organizations, most of which are registered under the traditional, non-qualified legal forms. This popularity loss is also visible in the number of active companies nation-wide between 2011 and 2019. Figure 8 below shows the relative number of active companies and the number of active SLs in Spain taking 2011 as the base year. As can be seen, SLs seem to be on the decline when compared to the whole population of companies in the country.

Figure 8 *Relative Number of Active Companies (All) and Active SLs in Spain.*



Note. Own elaboration with data from MITRAMISS (2019)

Despite the popularity loss of the SL model, the concept of employee participation behind it offers certain benefits that growth-seeking companies can profit from during their initial years. Once the SL model becomes too restrictive, they grow out of it and disqualify to continue their operations as regular entities that, I assume, continue to foster employee participation to a higher degree than conventional firms, thus becoming participatory companies.

These disqualified companies are unaccounted for in Figure 8 due to how records of active SLs are kept. In this sense, SLs could work as an incubating tool to start businesses and help them grow and enter the market. Statistics are thus designed to strictly show the performance of the SL model but not to provide a holistic view on how employee participation both in qualified and disqualified companies is faring.

2.5 Disqualification of Sociedades Laborales in Andalusia

Little has been written about disqualified SLs in Spain. One exception is the survey carried out between 2010 and 2012 by FEANSAL (2012), an SLs federation based in the southern autonomous community of Andalusia. Although their study does not cover Spain as a whole nor the Basque Country, I still believe their findings are worth mentioning since some of their findings could also apply to SLs in other regions.

Their sample consisted of 154 disqualified SLs in Andalusia and their aim was to delve into what caused such disqualification. For this purpose, they inquired companies about several aspects related to the SL model, namely, how they decided to become an SL in the first place, whether they had received unemployment benefits as a lump sum, whether they had received fiscal incentives, what their perception of workers as partners was, what social security regime they adopted, and how they decided to give up their SL qualification.

According to this survey, 65.58% received funds from capitalized unemployment benefits, 40.56% received subsidies at the start of their operations as an SL, and 7.14% received subsidies past their initial stages. Inclusion of workers as partners is viewed positively by 80.52% of respondents; 88.96%

believe there should be no limits to the number of workers with an indefinite contract, and 63.38% indicated this limitation might have been a cause for disqualification.

The idea of registering an SL arose from the input of external advisors in 66.23% of the cases. Interestingly, the idea to disqualify as an SL also originated from external advisors in 66.23% of the cases, and only 33.12% made the decision on their own. The vast majority (92.21%) stated they had no intentions of disqualifying at the moment they set up the business, indicating that disqualification most likely developed at a later point in time.

Amongst the reasons to create an SL, the survey found 53.25% chose the model due to incentives they expected to receive; 35.06% chose it for ideological reasons; and 5.19% mentioned the capitalization of unemployment benefits as the main decisive factor. As for the reasons to disqualify, 40.91% indicated lack of incentives was the cause; 17.53% mentioned the limitations on workers hired on an indefinite contract; and 3.9% stated the lack of tax incentives was the main reason.

Based on their survey results, FEANSAL concluded the main reasons to disqualify are the following:

- Lack of awareness of the SL legal framework: The study suggests entrepreneurs tend to rely on external advisors to whom they feel close rather than on organizations such as FEANSAL, which are better suited to advise on how to manage an SL. This results in the external advisor finding SLs require learning about the model, and therefore they end up encouraging disqualification.
- Limitations on the number of indefinite contracts: FEANSAL concluded these limitations are taken as punitive rather than as an incentive to hire worker-owners.
- Lack of interest in workers becoming owners: The study concludes both workers and organizations do not have enough incentives to encourage the transformation from workers to worker-owners. FEANSAL indicates fiscal incentives for both parties could increase the actual motivation.

- Issues receiving incentives at the start of operations: FEANSAL found there are some issues in the implementation of these incentives that result in many companies not receiving them. These incentives should work together with the capitalization of unemployment benefits to help entrepreneurs set up and start their business.
- Lack of incentives for on-going SLs: Most incentives only focus on the initial years, leaving the organization on its own later on.
- Lack of separate fiscal treatment similar to that of cooperatives.

This survey was carried out before the 2015 reform, which brought about more flexibility and addressed the issue on the limit on indefinite contracts. It appears this reform might not have been enough or in the right direction, since the SL numbers did not pick up in the years following its implementation.

The need for separate legal treatment FEANSAL mentions is not an issue in the Basque Country since their autonomy has allowed the local government to regulate SLs separately. This is not the case for most of Spain given that taxation usually falls under the central government's jurisdiction.

This survey also brought to light a lack of information which might stem from a poor communication about the SL model. The survey found that 87.01% did not know about the R+D grants available through the Social Economy and Entrepreneurs Administration (*Dirección General de Economía Social y Emprendedores*). Moreover, the fact that 66.23% of respondents indicated the idea to create an SL came from external advisors suggests that potential entrepreneurs are not acquainted enough with the concept so as to start a business under this model on their own. It remains an open question whether this communication issue is only a problem within Andalusia, or it extends to the rest of the autonomous communities. The latter appears to be the case.

3 Sociudades Laborales in the Basque Country

The Basque Country is an especially interesting case to study and to compare with the rest of Spain. Due to its highly developed economy, employee ownership was studied in depth and regulated accordingly. Moreover, the

region's tax autonomy allowed them to pass special legislation to encourage employee ownership and boost the SL model. Information on the Basque Country is also readily available both through the local statistics service (EUSTAT) and through non-profit organizations such as ASLE, whose aim is to support SLs by working side by side with them.

3.1 Employee Participation in Gipuzkoa

The Provincial Council of Gipuzkoa commissioned a study to consulting firm Iker R&D to analyze people's participation in Gipuzkoan companies. Their first report was issued in 2016 (Iker R&C, 2016) and was the result of interviewing 447 companies over the phone. These firms consisted of at least 20 employees, i.e. micro and some small businesses were not considered because Iker considered smaller companies would more likely not be in a position to reflect on employee participation.

The sample was comprised of 36.3% joint-stock companies, 43.7% limited liability companies, 10.6% cooperatives and 9.5% other legal forms. As for size, 59.5% were small businesses, 31.3% fell under the medium category and 9.2% belonged into the large enterprise bracket. Most were in the industrial sector (60.9%), followed by those in the service sector (36%) and by construction firms (3.1%).

The interview included a wide array of questions on the following topics:

- Communication and information tools
- Development of training activities
- Participation in management
- Economic participation
- Performance and engagement assessment
- Firm's defining features

Economic participation in this study is an umbrella term for profit participation, i.e., the right of employees to receive a variable share of the

company's income, and equity participation, i.e. when employees invest capital in the company thus becoming shareholders (worker-owners).

Ikei found that among the firms in the sample, 73% did not offer equity participation at all; 9.7% made it available for middle and upper management; 7.2% made it available for whoever showed interest; and 10.1% had participation across the payroll. Regarding profit participation in the form of a variable pay salary structure, 24.5% calculated distribution among all employees based on the company's overall performance; 9.2% did it based on team/department performance; and 8.9% factored in personal performance.

When asked about the perception on the degree of development of their organization, results showed that the larger the company, the higher the number of respondents that answered "highly developed": Among small companies (10-49 employees), 19% chose that option; among small medium companies (50-99 employees), 23.6%; and larger medium and larger companies (over 100 employees) had the highest rate at 27%. This correlation between size and perceived development is explained, according to Ikei, by the fact that larger companies tend to have more resources to carry out projects on innovation, internationalization, and employee participation. "Advanced employee participation organization models are usually implemented when the firm reaches a relevant size." (Ikei R&C, 2016). When analyzed against the different legal forms, cooperatives show the highest perceived development rate at 45.7%, followed by LLCs (23%) and joint-stock companies (12.7%).

The study also surveyed more than 600 inhabitants of the Gipuzkoa region working in the private sector for companies of 5 or more employees. They were inquired about current capital participation and, where nonexistent, about interest in participating. 13.2% of respondents indicated they participated in the equity of the company they work at, and 23.4% of those without participation answered that they had interest. Regarding profit participation, 28.5% of respondents answered they participated in their company's profits.

Ikei also confirmed that there is a correlation between capital participation and the position occupied. 56.8% of executives answered they do participate, against 14.5% of middle management and 9.3% of non-managing workers. The

difference is less sharp when considering desire to participate: 41.2% of executives answered affirmatively, while 24.3% of middle management and 22.4% of non-managing workers did so. At the same time, desire to participate in a company's equity does not seem to correlate with the size of the company. According to Ikei's findings, an average of 24.1% of respondents wishes to participate, with negligible differences among size brackets.

Profit participation also correlates with the employee's position: 48.6% of executives receive a variable share of the profits, while 25.8% of non-managing employees do so. On the other hand, the relationship between profit participation and company size is not that direct: Percentages range from 20.5% to 35.8% depending on the size bracket.

Ikei also inquired about the perceived obstacles to both types of participation. In both cases, the need for a change of mindset is seen as one of the major hurdles, while complexity of implementation is ranked lower. This suggests the shift toward more employee participation in all its forms poses more psychological challenges than organizational ones. Due to how the sample is comprised mostly of conventional companies without participation, these answers reflect mostly the outlook of conventional companies eventually shifting toward a participatory model. Another interesting approach that was not included would be to consider the point of view of new entrepreneurs who must decide how to set up their company from the start as opposed to those that already have an ongoing business that would naturally offer more resistance to change.

Although this study does not encompass the entirety of the Basque Country, Gipuzkoa is the second most populous province of the three that comprise this autonomous community, thus providing valuable insight on a significant part of the region.

3.2 Tax Autonomy in the Basque Country

Thanks to the Basque Economic Agreement, the region is in a privileged position to pass regulations to better achieve their goals. In this sense, they have

been able to outdo the public subsidies and modest tax incentives available at national level.

In this sense, in 2016 Gipuzkoa's provincial council passed law 6/2016 (Diputación Foral de Gipuzkoa, 2016) in order to promote workers' equity participation through tax incentives. This law sought to eliminate certain obstacles and simplify bureaucracy in order to adapt the model to the "current social reality" (Diputación Foral de Gipuzkoa, 2016). For instance, the requirements for tax exemption for retiring owners and transmitting entities became more flexible:

- minimum age was lowered from 65 to 60,
- the compulsory offer to all employees was eliminated,
- the concept of an intermediary entities created exclusively to facilitate employee stock ownership was introduced.

At the same time, the law also improved tax exemption limits:

- tax deduction increased from 10% to 15% for male employees,
- a special 20% tax deduction for female employees was introduced,
- unused tax exemptions can be carried over for 4 years,
- the cumulative tax deductions cap over consecutive fiscal years changed to €6,000 for male employees and €8,000 for female employees.

These measures also make evident how the government of Gipuzkoa had gender equality in mind, since they tried to improve the presence of women in a male-dominated world by providing enhanced conditions for female worker-owners.

Four years later, the council of Gipuzkoa passed law 5/2020 (Diputación Foral de Gipuzkoa, 2020) to modify tax regulations in response to the Covid-19 pandemic. Such swift reaction sought to encourage entrepreneurship during a time of economic hardship in the hope that companies and entrepreneurs would have a less difficult time adapting to the new reality. Specifically, the council lowered corporate income tax for the duration of 2020, introduced an extraordinary tax cut on 2019 taxes based on expected losses during 2020, and increased maximum the tax deductions granted for employment generation to €7,500 per person. Requirements to apply for tax deductions granted for setting

up a business were simplified, and incentives to help small businesses and individuals convert to a digital business model were put in place.

Although this 2020 regulations did not specifically target SLs, they are further proof of the local government's autonomy and its resulting agility to help their businesses when the surrounding environment factors change.

3.3 Data Sources

A considerable amount of data on SLs and conventional companies is readily available in the Basque Country both through the local statistics service and through non-profit organizations such as ASLE.

EUSTAT is the official Basque statistics institute since 1986, and citizens and companies are obliged by law to collaborate with data collection to ensure the quantity and quality of information. The main aim of the agency is to meet the statistical information needs of citizens, companies, government agencies, and universities among others by undertaking operations to gather economic, social, environmental, and territorial data (*Servicios de Información*, n.d.). These operations are grouped into four-year plans according to what the government deems necessary. ASLE is a non-profit organization setup in 1982 with the purpose of supporting SLs and, more recently, participatory companies in the Basque Country (ASLE, 2018). Although they do not collaborate with all of them, they currently work with 309 companies, which is a considerable number when compared to the 741 SLs active in 2019. This close contact gives ASLE valuable insight on the current status of SLs and participatory companies and allows them to carry out additional studies to gather more information than that processed by EUSTAT.

These sources are complemented by the national statistics service (INE) and the Ministry of Labor of Spain (MITRAMISS, formerly known as MEYSS), which collect similar data to that of EUSTAT at national level. Some of the data gathered by these agencies can be accessed through their websites, other is published by the Bank of Spain, and more specific data sets can be ordered to match special requirements.

IV. Research Design and Results

1 Employment Generation and DCM

In order to have a wider picture of how the population of SLs and conventional companies is performing and given the lack of a database containing longitudinal data for every existing company, I have analyzed aggregate data on employment change. By obtaining the number of companies and the number of those employed by these companies I have been able to study employment generation and, therefore, growth. In this sense, the creation of new companies is also considered growth as they add up to the total number of employees.

Because of how the datasets are designed, employment can be studied per size bracket, showing whether micro, small, medium, and large companies are behaving in terms of growth. However, this poses an additional challenge: Since by growing or shrinking companies shift size categories, change can easily be assigned to the wrong size bracket.

In order to solve this problem, the Dynamic Classification Method (DCM) was introduced by Davidsson (1996) and then reintroduced by de Wit & de Kok (2013). It was originally designed to accurately portray the number of jobs created by micro, small, medium, and large companies. As opposed to other previously used methods, DCM had two main advantages:

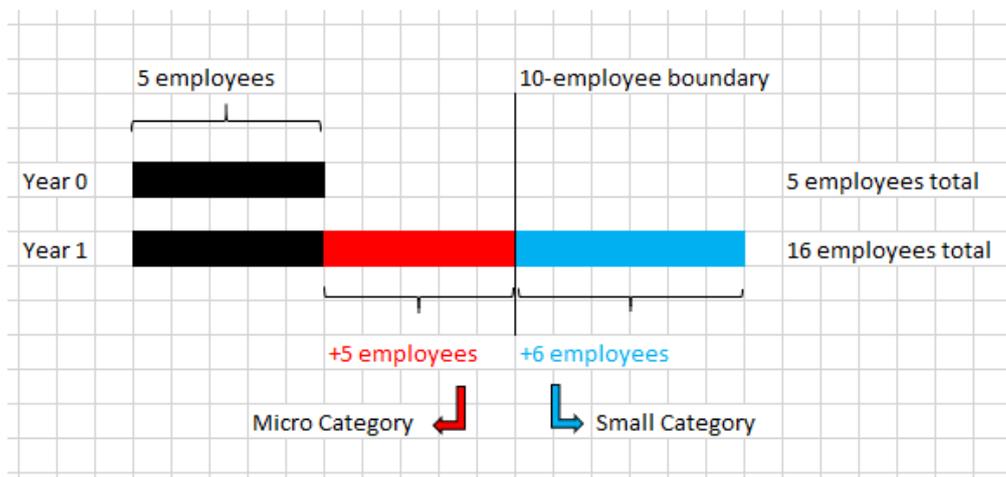
- On the one hand, it fairly assigns each new job created (lost) to the size class in which said job was created (lost), thus accounting for those companies that cross boundaries in the process. For instance, if a micro company grows from 5 employees to 16 and thus crosses the 10-employee boundary into the medium size category, DCM assigns 5 new jobs to the micro category (since those jobs were created while the company was of micro size) and 6 new jobs to the small-size bracket (since the company had already become small at the point it hired its 11th

employee). This is illustrated by Figure 9 below. Other pre-existing methods would have assigned all 11 new jobs to the initial size bracket in year 0 (micro) or to the final size bracket in year 1 (small), which distorts the results favoring one bracket over the other, a bias that exacerbates when companies do not grow linearly and fall back into a smaller size bracket.

- On the other hand, DCM requires little information, namely “the employment level and the number of firms in each size class within each time period” (de Wit & de Kok, 2013). In other words, unlike in my simplified example from Figure 9, information at company level is not needed and aggregate data can be used. With only the number of people employed and the number of companies in each bracket, one can calculate the absolute employment change which, if positive, can be interpreted as growth. Then, with the initial number of employees, one can calculate the relative change, which can be interpreted as a growth rate. This rate can be compared between SLs and conventional firms, and also among the different size brackets to check whether growth behaves differently in any of the categories.

For this analysis, annual data instead of quarterly is required; this is to remove temporary/seasonal job fluctuations that might affect statistics, leaving only permanent employment within the analysis.

Figure 9 Dynamic Classification Method Example



Note. Own elaboration.

1.1 Method Description

At national level, I used data from MITRAMISS between 2011 and 2019 containing the number of companies and number of employees on the last working day of every year. I obtained two main comparable datasets: one for active, qualified SLs and another for all types of businesses, including SLs.

Within each dataset, companies were divided in 7 categories as follows:

1. 1-2 workers
2. 3-5 workers
3. 6-9 workers
4. 10-49 workers
5. 50-249 workers
6. 250-499 workers
7. Over 499 workers

I re-grouped them according to the size-bracket classification in order to make it comparable to other datasets as follows:

1. Micro companies: 1-9 workers
2. Small companies: 10-49 workers
3. Medium companies: 50-249 workers
4. Large companies: over 249 workers

For reference, I calculated the average size of companies:

Table 3 Average Size of Spanish Companies per Year

	2011	2012	2013	2014	2015	2016	2017	2018	2019
All companies	9.40	9.22	9.24	9.37	9.56	9.78	10.08	10.35	10.60
SLs	5.53	5.49	5.61	5.87	6.25	6.53	6.87	7.13	7.39

Note. Own elaboration with data from MITRAMISS.

Although the overall population of companies displays a larger average size every year, SLs' average size grew 33.6% from 2011 to 2019, while the average size of all companies grew 12.8% over the same period.

Upon applying the DCM formula to re-allocate employment change, I obtained the following results:

Table 4 Relative Employment Change in Spanish Companies (All Types) Corrected by DCM

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL	-5.25%	-0.01%	2.18%	4.63%	4.28%	4.15%	4.24%	1.98%
Micro (1-9)	-8.55%	1.00%	1.53%	7.30%	5.35%	3.88%	4.46%	0.04%
Small (10-49)	-5.77%	-0.90%	2.17%	4.70%	4.68%	4.40%	3.97%	1.89%
Medium (50-249)	-4.36%	-0.71%	2.38%	4.06%	4.52%	4.72%	4.13%	2.73%
Large (250+)	-3.27%	0.15%	2.52%	3.17%	3.28%	3.92%	4.32%	2.80%

Note. Own elaboration with data from MITRAMISS.

The analysis of overall population of companies shows how employment shrank until 2013 and then started recovering until 2019, with the notable exception of micro companies in 2019, which display almost no variation (0.04%).

Table 5 Relative Employment Change in Spanish SLs Corrected by DCM

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL	-9.39%	-5.89%	0.10%	1.49%	-0.85%	-0.73%	-2.04%	-3.05%
Micro (1-9)	-13.47%	-8.46%	-2.63%	-1.40%	-3.89%	-3.94%	-6.30%	-8.61%
Small (10-49)	-7.78%	-2.34%	1.09%	4.94%	2.16%	4.01%	-0.52%	-3.72%
Med. (50-249)	-0.53%	-3.84%	6.00%	1.54%	-2.22%	-0.21%	1.10%	3.36%
Large (250+)	4.40%	-3.37%	8.02%	7.57%	7.24%	-1.03%	9.12%	14.64%

Note. Own elaboration with data from MITRAMISS.

SLs, on the other hand, show that employment generation recovered the most in larger-sized companies, while micro enterprises were affected the most and do not display any positive numbers.

For the Basque Country, I used data from EUSTAT between 2010 and 2019 that includes the number of companies and number of employees on January 1st of every year. I obtained two main comparable datasets: one for active, qualified SLs and another for conventional businesses, excluding SLs. I combined both to obtain the data for the complete population of companies and thus make it comparable with that of Spain. I also shifted the years to make up for the registration date difference (last working day vs. January 1st).

Within each dataset, companies were divided in 7 categories as follows:

1. 1-2 workers
2. 3-5 workers
3. 6-9 workers
4. 10-14 workers
5. 15-19 workers
6. 20-49 workers
7. Over 50 workers

I re-grouped the data received according to the size-bracket classification as follows:

1. Micro companies: 1-9 workers

2. Small companies: 10-49 workers
3. Medium and large companies: over 49 workers

As for the average company size per year, the results are presented below in Table 6 below:

Table 6 Average Size of Basque Companies per Year

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
All companies	9.52	9.36	9.61	9.78	9.62	9.46	9.64	9.90	10.23	10.41
SLs	9.96	9.80	8.45	8.66	8.20	7.93	8.47	8.77	9.32	9.90

Note. Own elaboration with data from EUSTAT.

After applying the DCM formula to re-assign employment change, I obtained the following table indicating relative employment generation by all companies per size bracket in the Basque Country:

Table 7 Relative Employment Change in Basque Companies (All Types) Corrected by DCM

	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL	-2.90%	-3.80%	-2.59%	-2.66%	-1.41%	1.67%	2.73%	2.47%	3.39%
Micro	-5.33%	-8.82%	-6.90%	-5.49%	-3.15%	-0.09%	2.61%	1.52%	3.30%
Small	-2.52%	-3.18%	-4.05%	-3.99%	-0.84%	1.79%	3.00%	2.48%	3.22%
Medium & Large	-1.89%	-1.60%	0.54%	-0.43%	-0.92%	2.45%	2.62%	2.89%	3.54%

Note. Own elaboration with data from EUSTAT.

A clear distinction can be made between the 2010-2014 and 2015-2018 periods, the former being one of economic downturn after the 2008 financial crisis, followed by the latter, displaying signs of recovery across all size brackets.

Table 8 Relative Employment Change in Basque SLs Corrected by DCM

	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL	-9.16%	-22.81%	-4.21%	-7.84%	-4.89%	4.17%	-2.77%	2.00%	1.44%
Micro	-15.32%	-17.56%	-10.26%	-8.76%	-8.07%	-1.37%	-8.32%	-1.85%	-2.65%
Small	-8.14%	-7.83%	-3.92%	-6.90%	-4.08%	6.09%	-0.33%	4.12%	4.12%
Medium & Large	-5.25%	-40.57%	2.53%	-8.10%	-2.19%	8.41%	0.00%	3.46%	2.13%

Note. Own elaboration with data from EUSTAT.

Relative employment change in SLs also displays a period of economic hardship until 2014, which continues to be the case for micro SLs until 2018. Only larger SLs managed to recover and generate employment accordingly in the 2015-2018 period.

1.2 Caveats

A few caveats are attached to the DCM analysis. First, because it only requires aggregate data, it poses the question of what should be considered growth. Since all companies are analyzed as a group, employment generation represents the growth of that group, but there is no way of knowing whether growth comes from newly created companies that outnumber those that close down, or from the consistent growth of a group of companies over time.

Second, this analysis does not account for disqualified SLs that continue to operate encouraging employee ownership but without the legal qualification. This is due to the lack of tracking of participatory companies on behalf of the statistics service providers in Spain. In the end, only qualified SLs are shown as such, and when they disqualify, they are included under the conventional company's category, thus skewing the results in favor of conventional companies that do not encourage employee participation of any type.

Third, despite working with official datasets from the same country, there are some differences between them regarding how data is collected and classified. In this case, the size brackets were not identical: in the Basque Country, large and medium companies had to be grouped together. Moreover, the date on which data is collected for each year was also different in each jurisdiction. Thus, adjustments had to be made.

Finally, because this method utilizes data on employment, it does not include workers hired under the autonomous regime, i.e. workers without a permanent work contract. I thus assume the number of workers under said regime is similar for both types of companies and thus the datasets remain comparable. I also assume that growth is better represented by the hiring of permanent employees rather than by temporary, external workers who might be needed as an answer to an occasional or seasonal peak in activity. This has been the case in one of the case studies (see Gran Sol under section 3.1).

1.3 Results

The average size of SLs in Spain is growing faster than that of conventional companies. At the same time, larger SLs are generating more employment and recovered better after the crisis when compared to smaller SLs. This phenomenon combined with the decline in newly registered SLs indicates that even though the concept is losing popularity, existing SLs are growing at a faster pace than their conventional counterparts.

In the Basque Country, the overall size of SLs has remained fairly stable, similarly to that of conventional companies. SLs in the Basque Country also display higher employment loss during the crisis years, after which small, medium, and large SLs recovered, but only small SLs outperformed their conventional counterparts in terms of employment generation.

Upon comparing the Basque Country with the entirety of Spain, both jurisdictions display a fairly stable average of 9-11 employees per company. On the other hand, when comparing the average size of SLs, Basque companies

tend to hire more employees than SLs in the rest of Spain, although this difference is growing smaller every year.

2 Cohort Analysis in the Basque Country

EUSTAT studies company survival rates, and in order to do so, they keep track of cohorts, i.e. companies registered on the same year, and publish data on how many are active after four years and how many employees are on their payroll. With this information I was able to separate those companies that survived four years, analyze how much they grew over that time span, and compare how SLs performed against conventional companies.

The main difference between this method and the DCM analysis is that, while the latter measured growth within a changing population of companies, the former allows to look into a fixed number of surviving companies over time. The effect is twofold: It weeds out all inactive companies (those that failed to survive four years) and it separates the group from newly registered firms. As a result, growth rates obtained arise from the expansion or contraction of the same group of firms, rather than from the creation or dissolution of other companies. By filtering the survival factor out of the equation, this approach provides accurate data on how companies generate employment and grow in the four years following the year of their first registration.

2.1 Method Description

I retrieved data on cohorts 2004 through 2014. Information on earlier cohorts was not available and more recent cohorts had not yet been in operation enough years at the time of data collection. Information on cohorts 2004 through 2006 was incomplete, as it only included data on year zero and four but not about some intermediate years. Data collection point is January 1st of every year.

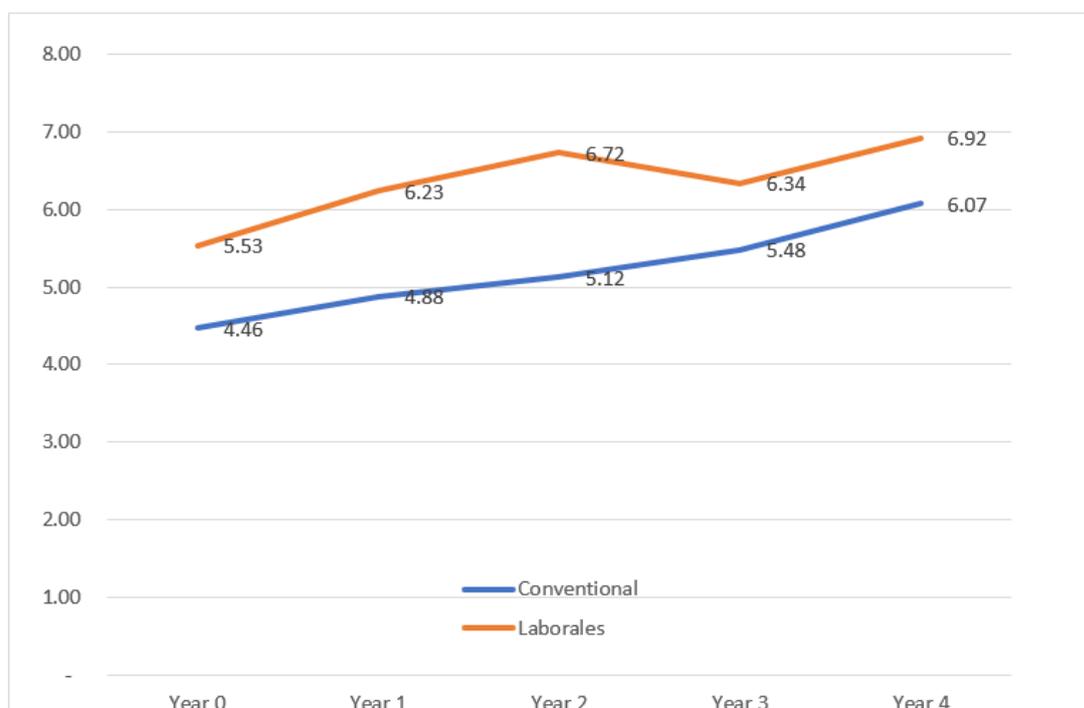
The dataset contained the number of employees in the year of registration and the subsequent four years (except for cohorts 2004-2006). Companies were

separated into four categories: conventional joint-stock companies (SA), conventional limited liability companies (LLC), and their SL counterparts (SAL and SLL). I regrouped them in two: conventional firms and SLs.

Two main approaches to this data analysis were adopted. For the first, I effaced external environment conditions bound to the ongoing time period and studied growth in SLs and conventional firms from year zero to year four; this allowed me to analyze growth at a more abstract level. In this case, only data for cohorts 2007-2014 was utilized because it included all the intermediate years. For the second approach, I studied cohorts through the actual fiscal years, which allowed me to identify four distinct sets according to the moment of registration in relation to the 2008 financial crisis; the performance of these sets was then compared between SLs and conventional firms.

2.2 Results

Figure 10 Yearly Average Size of 5-Year-Old Basque Companies



Note. Own elaboration with data from EUSTAT.

Figure 10 shows the average size of Basque firms that survived their first four years of operation after registration. SLs are on average around 20% larger than their conventional counterparts, although this difference is reduced to 14% upon approaching year four. The graph also shows that SLs grow faster until year two, but then they slow down when compared to conventional firms. By year two, SLs typically grow 21.6% while conventional firms grow 14.7% when compared to their size in year zero. By year three, however, conventional companies take the lead, and their size is 22.7% larger than in registration year, while SLs display a growth of 14.6%.

Upon analyzing each cohort independently, four groups were identified according to when registration took place in relation to the 2008 financial crisis:

1. Firms registered prior to the crisis and that only were exposed to its effects on the final years of the five-year period under analysis. This group includes the 2004 and 2005 cohorts.
2. Firms registered before the crisis that experienced the full blow within the five-year period. This group includes cohorts 2006, 2007 and 2008.
3. Firms registered after the crisis onset and during the ensuing economic downturn and, therefore, with previous knowledge on the situation. This category includes cohorts 2009, 2010, 2011 and 2012.
4. Firms registered after the economic downturn when signs of recovery started showing. This group includes cohorts 2013 and 2014.

The relative change in average size between year one and year five is summarized in Table 9 below:

Table 9 Relative Change in Average Size of Basque Companies per Cohort after Five Years

Cohort	Conventional	Laborales
F2004-2008	49%	60%
F2005-2009	14%	26%
F2006-2010	18%	-11%
F2007-2011	23%	15%
F2008-2012	12%	-19%
F2009-2013	-30%	6%
F2010-2014	13%	149%
F2011-2015	19%	107%
F2012-2016	29%	46%
F2013-2017	27%	79%
F2014-2018	69%	100%

Note. Own elaboration with data from EUSTAT.

In the first group (blue) of companies that were registered prior to the 2008 financial crisis, *Sociedades Laborales* in the 2004 and 2005 cohorts outgrew their conventional counterparts by 11 and 12 percentage points, respectively. The impact of the crisis was mostly toward the end of the five-year period under analysis.

In the second group of companies registered prior to the crisis (and, therefore, unaware of what was ahead), all three cohorts of conventional firms outperformed SLs. These companies were affected by the crisis in most of their first five years of operation. While conventional companies still show a positive relative change, SLs shrank.

In the third group, comprised of companies registered during the economic downturn that ensued, SLs outgrew conventional companies in all three cohorts. It is worth noting that the 2009 cohort is the only one in which conventional companies display a negative relative size change.

Finally, among the group of companies registered during the recovery period, even though conventional companies improved, they were still outperformed by SLs registered in 2013 and 2014, which display rates 51 and 31 percentage points above those of conventional companies.

Given that companies that went out of businesses are not taken into account in this analysis, it is possible that a reason why the only period in which

conventional firms outperformed SLs (i.e. those cohorts registered without knowledge on the imminent crisis and whose first years were the most affected by the economic downturn) is that conventional companies did not survive the crisis altogether while SLs were able to remain in business while shrinking their payroll. This could not be fully verified: The necessary data was not available for the 2006 cohorts. The 2007 cohorts displayed similar survival rates (68.5% for conventional firms and 65.3% for SLs), while the 2008 cohorts did show a significant difference that seemed to support my hypothesis: a 61% survival rate for conventional firms against an 86% for SLs.

2.3 Results

3 Case Studies

Basque non-profit organization ASLE works for the promotion, protection and strengthening of SLs and participatory companies (ASLE, 2018). Through them, I was able to look into some of the companies they work/worked with to achieve these goals.

These predominantly qualitative case studies include both joint-stock companies and limited liability entities. They are mostly from the service and industry sectors, and perform diverse economic activities: from landscaping services, to production of steel tools. Age-wise, the group is also varied: some have a decades-long history, while a software consultancy company was founded in 2013.

The most notable distinction, however, is whether they maintained their SL qualification or not at the moment of analysis. In this sense, only one firm opted for disqualification and, unfortunately, no information since they started operating as a conventional firm could be gathered. I therefore ignore whether they transitioned into being a participatory company, maintaining some degree of employee participation, or whether they completely switched into the traditional capitalist model. Data on all cases was first gathered in 2016, followed by a 2019 update that excluded the disqualified firm.

Each case study contains a brief description and history of the firm, followed by financial, employment and ownership longitudinal data. Some of the ratios and indicators are compared with the sector average for reference. When possible, this comparison was made both with the sector in the Basque Country and the sector in all of Spain.

The financial indicators included are the following:

- EBITDA Margin: ($=\text{EBITDA}/\text{sales}$) the operating profit of the company as a percentage of its total revenue. By using this relative profitability, I am able to compare the performance of companies regardless of their size and the capacity of their operations to generate funds for potential re-investment.
- Indebtedness Ratio: ($=\text{liabilities}/\text{assets}$) the percentage of the company's assets that are funded through debt. With this indicator I can study whether the company relies on external funds in order to support its operation and growth (if any) as opposed to relying on capital from investors.
- Financial Profitability: ($=\text{net income}/\text{equity}$) return on equity investments, i.e., the financial performance of the company measured in how much profit is generated per euro invested. The higher the ratio, the better the capital of the company is managed and, therefore, the more likely the company is to grow.
- Productivity (of HR): ($=\text{net income}/\text{HR expenses}$) net-profit-per-euro-of-payroll ratio. This indicator provides insight on the productivity in human resources management; a higher ratio could translate into potential for growth, while a lower one might suggest the payroll needs to be restructured.

Each indicator tends to behave differently depending on the main activity the firm performs, which is why I focused the analysis not on a comparison across cases but with each company's sector. Being individual case studies, data is not representative of the population of companies to which they belong. However, the availability of disaggregate, longitudinal data offers deeper insight into the SL model and its impact on these particular firms.

3.1 Existing SLs

Komunikazio Biziagoa SAL: This joint-stock company in the publishing business was founded in 1998 as a worker-owned company, although its origin can be traced back to 1919 when they started publishing a religious magazine in the Basque language. 13 of the original partners capitalized their unemployment benefits, each of them contributing €3,000; over the years, more worker-owners joined and did the same.

This is a case in which the SL model was particularly beneficial due to the company's industry. Given that the company is in the publishing industry and its mission is to inform Basque citizens, they stand out from other companies by using employee ownership as a way to ensure independence of thought. Consequently, being a completely flat organization in which most workers are owners, they ensure that their publications are bias-free.

Table 10 Komunikazio Biziagoa's Financial Indicators Compared to Sector Averages in Spain and the Basque Country

Financial ratios	Komunikazio Biziagoa 2018	Sector average (Spain) 2018	Sector average (Basque C.) 2016
EBITDA margin	1.82%	7.31%	19%
Indebtedness ratio	25.9%	44.37%	45%
Financial profitability	1.61%	4.63%	5.42%
Productivity	1.7%	9.12%	31%

Company sector: NACE - J 5814 - Publishing of journals and periodicals

Sector for Spain: NACE - J 58 - Publishing activities

Sector for Basque Country: 22 - Publishing, imagery, radio y television (A38) / 59 - Publishing (A86)¹

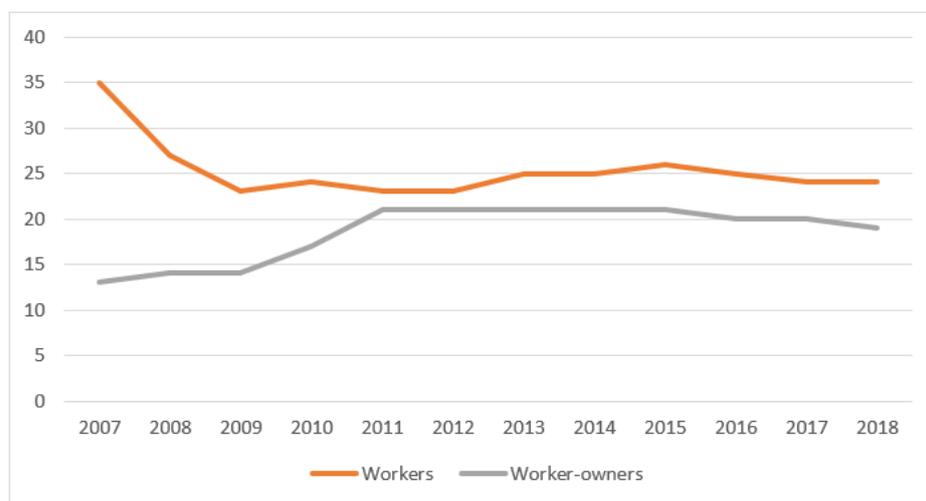
Note. Own elaboration with data obtained through ASLE from Komunikazio Biziagoa SAL's annual accounts and the annual accounts of sector companies submitted to the Trade Register in Spain (and obtained through the Bank of Spain) and to EUSTAT (Basque Country).

Upon analyzing Table 10 above, it becomes clear that in 2018 this SAL was financially outperformed by other Spanish companies in the sector. Figures for the Basque sector in the same period were not available; instead, I included the most recent data (2016) only for reference purposes.

¹ Balance sheet for sector "22 - Publishing, imagery, radio y television" as per classification A38; income statement for sector "59 - Publishing (A86)" as per classification A86. Source: Basque Statistics Institute.

Regarding growth, Komunikazio did not increase its payroll in the 2007-2018 period and has remained stable in size after the crisis, which took a severe toll on its employees (especially those who were not owners). However, when analyzing the number of worker-owners, the company displays an increase in the 2009-2011 period. Consequently, the proportion of employees who are not workers has reduced. Komunikazio Biziagoa has remained in the small size bracket throughout the years under analysis, as can be seen in Figure 11 below.

Figure 11 Number of Workers and Worker-Owners at Komunikazio Biziagoa (2007-2018)



Note. Own elaboration with data obtained through ASLE from Komunikazio Biziagoa SAL

Gran Sol SLL: This limited liability company was created in 2012 and belongs to the music distribution sector. One of the four founding partners capitalized their unemployment benefits to invest them in the company. However, the main incentive to become an SL was setting up a company with a democratic structure: Every member held one fourth of the social capital at the start and then, when a worker left in 2016, each partner held one third, maintaining equality among them. One of the company's most remarkable indicators is the productivity ratio (income/staff costs), which has been growing from 0.27 in 2012 to 6.24 in 2018, meaning the company makes more revenue for every euro spent on personnel.

Table 11 Gran Sol's Financial Indicators Compared to Sector Averages in Spain and the Basque Country

Financial ratios	Gran Sol 2018	Sector average (Spain) 2018	Sector average (Basque C.) 2016
EBITDA margin	1%	4%	11%
Indebtedness ratio	87%	55%	53%
Financial profitability	0%	26%	1%
Productivity	624%	108%	1%

Company sector: NACE - G 4652 - Wholesale of electronic and telecommunications equipment and parts

Sector for Spain: NACE - G 46 - Wholesale trade, except of motor vehicles and motorcycles

Sector for Basque Country: Information Technology²

Note. Own elaboration with data obtained through ASLE from Gran Sol SLL's annual accounts and the annual accounts of sector companies submitted to the Trade Register in Spain (and obtained through the Bank of Spain) and to EUSTAT (Basque Country).

When compared to the sector in Spain (refer to Table 11), Gran Sol had a small EBITDA margin in 2018. However, due to the small size of the company, it is incredibly productive in terms of human resources. Data for the Basque Country for 2018 was not available, so the most recent indicators (2016) were included for reference.

Figure 12 Number of Workers and Worker-Owners at Gran Sol (2012-2018)



Note. Own elaboration with data obtained through ASLE from Gran Sol SLL

² Balance sheet for sector "24 – Information Technology" as per classification A38; income statement for sector "62 – Information Technology" as per classification A86. Source: Basque Statistics Institute.

As for size (refer to Figure 12), Gran Sol is a micro company that has never grown into a larger bracket. In fact, the only change is negative: A worker-owner left the company, and their shares were equally distributed among the remaining owners. Even though the company does experience surges in its workload, these are seasonal (three peaks a year) and are therefore solved by outsourcing part of the work rather than increasing their payroll.

Hirunox Calderería Inoxidable SLL: This limited liability company specialises in boiler making, manufacturing, assembly and installation of metal structures, metal carpentry and associated engineering services. It was founded in 2012 by three partners who capitalized their unemployment benefits after the liquidation of their previous employer.

Table 12 Hirunox's Financial Indicators Compared to Sector Average in the Basque Country

Financial ratios	Hirunox Calderería Inoxidable 2018	Sector average (Basque Country)
EBITDA margin	-40%	11.42% (2018)
Indebtedness ratio	32%	55.9% (2017)
Financial profitability	-12%	8.6% (2017)
Productivity	108%	126% (2016)

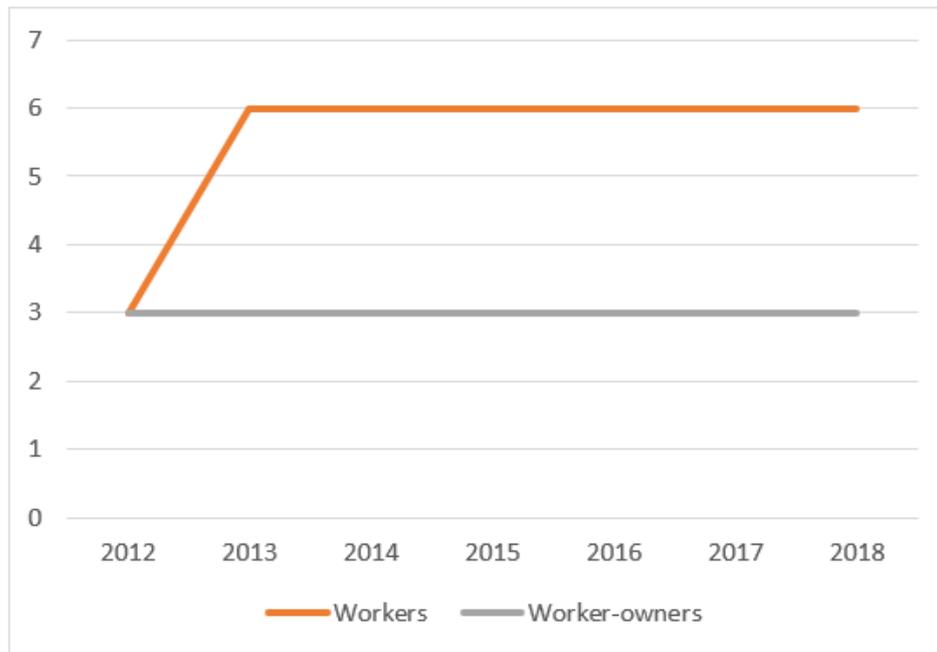
Company sector: NACE – C 2573 - Manufacture of tools

Sector for Basque Country: 10 – Manufacture of fabricated metal products, except machinery and equipment

Note. Own elaboration with data obtained through ASLE from Hirunox Calderería Inoxidable SLL's annual accounts and the annual accounts of sector companies submitted to EUSTAT (Basque Country).

According to ASLE, 2018 was an exceptionally difficult year for Hirunox due to issues with one of their main clients, which would explain the negative figures. As seen in Table 12, their financial performance that year was lower than the sector average and their EBITDA margin was nowhere near the 11.42% average in the rest of the Basque Country. Other indicators for the area were not available for 2018 at the time of writing, so the most recent data is shown for reference purposes.

Figure 13 Number of Workers and Worker-Owners at Hirunox (2012-2018)



Note. Own elaboration with data obtained through ASLE from Hirunox Calderería Inoxidable SLL

In terms of growth, the company has remained a micro company since 2012, with a stable number of employees and worker-owners since 2013 (refer to Figure 13). According to ASLE, management has expressed their concerns about the limitations on non-partner worker hours imposed by the SL legislation. The company also fears accepting more partners from the existing pool of employees could potentially be a setback for the agility of their decision-making process.

Kimu Bat SLL: Its origins can be traced back to 1991, when they operated as a flower and plant shop. The company grew and it was registered as a limited liability company with four founding partners. Their array of services expanded to landscaping and horticulture, where innovation is a key to their success. Moreover, Kimu Bat was able to take on larger projects thanks to the boom in construction and real estate, which helped their growth. This favorable situation faded with the 2008 financial crisis, which affected real estate the most. In order to pull through, the company decided to maintain their human resources, thus increasing the sense of belonging in the team. In 2013, the company was at risk, and the owners and employees jointly decided to share ownership to ensure

business continuity, resulting in its registration as an SL in 2014. 16 worker-owners have capitalized their unemployment benefits, contributing an average of €15,000 each.

Table 13 Kimu Bat's Financial Indicators Compared to Sector Averages in Spain and the Basque Country

Financial ratios	Kimu Bat 2018	Sector average (Spain) 2018	Sector average (Basque C.) 2017
EBITDA margin	4.48%	3.85%	n/a
Indebtedness ratio	62.91%	63.13%	39.6%
Financial profitability	-2.53%	10.76%	n/a
Productivity	-1.41%	3.3%	n/a

Company sector: NACE - N 8130 – Landscape service activities

Sector for Spain: NACE - N 81 – Services to buildings and landscape activities

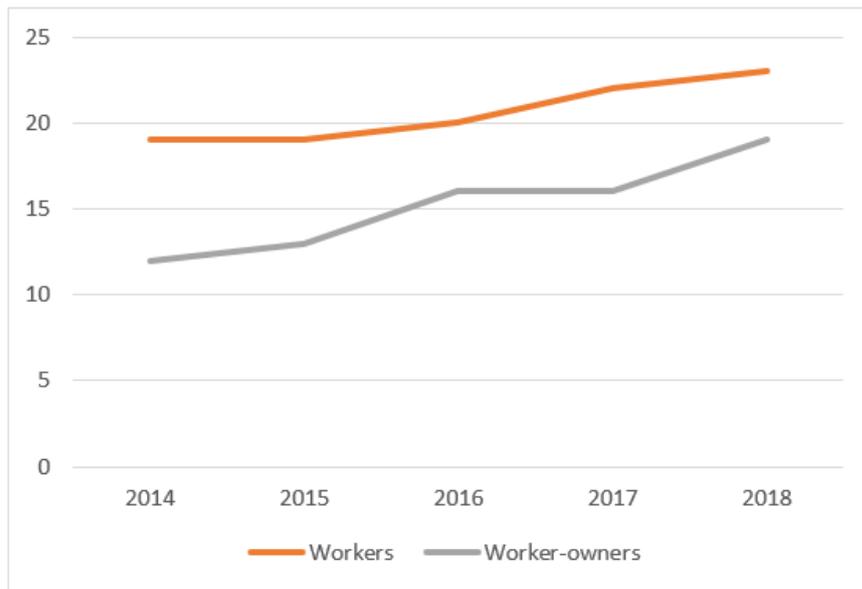
Sector for Basque Country: 30 – Ancillary services³

Note. Own elaboration with data obtained through ASLE from Kimu Bat SLL's annual accounts and the annual accounts of sector companies submitted to the Trade Register in Spain (and obtained through the Bank of Spain) and to EUSTAT (Basque Country).

As shown in Table 13, Kimu Bat's EBITDA margin was higher than the sector average in Spain, while their indebtedness ratio is similar. Their financial profitability and productivity were nonetheless negative and lower than that of the sector. Unfortunately, sector data for the Basque Country was not available and only the indebtedness ratio for 2017 could be included for reference purposes.

³ Balance sheet for sector "30 – Ancillary services" as per classification A38; income statement for the sector was not available. Source: Basque Statistics Institute.

Figure 14 Number of Workers and Worker-Owners at Kimu Bat (2014-2018)



Note. Own elaboration with data obtained through ASLE from Kimu Bat SLL

As for growth, since their registration as a SL, Kimu has displayed sustained growth both in the number of workers and in the number of worker-owners. The company had no buyouts and no reductions in their payroll. It is still far, however, from crossing over to the medium size bracket.

Izar Cutting Tools SAL: The company's origin dates back to the beginning of the 20th century when it produced steel crossbows for carriages. Until the 1980s, the company did well by relying on the quality and innovation of the cutting tools it produced, allowing it to overcome the economic crisis of the 1970s. In 1988, the company was sold and the new owner, whose indifference drove the company to the ground. In 1993, the firm was turned into a SAL to ensure its continuity; 43% of the workers were laid off in the process. In 1996, the company was still struggling, and more capital was needed. A new SAL was created the following year, accompanied by a new feasibility plan. Additional founding was possible in 1998 thanks to the capitalization of unemployment benefits. By 1999, the company was profitable again and dividends were first paid out.

Table 14 Izar Cutting Tools' Financial Indicators Compared to Sector Averages in the Basque Country

Financial ratios	Izar Cutting Tools 2018	Sector average (Basque Country)
EBITDA margin	13.2%	11.42% (2018)
Indebtedness ratio	31.08%	55.9% (2017)
Financial profitability	9.9%	8.6% (2017)
Productivity	152%	126% (2016)

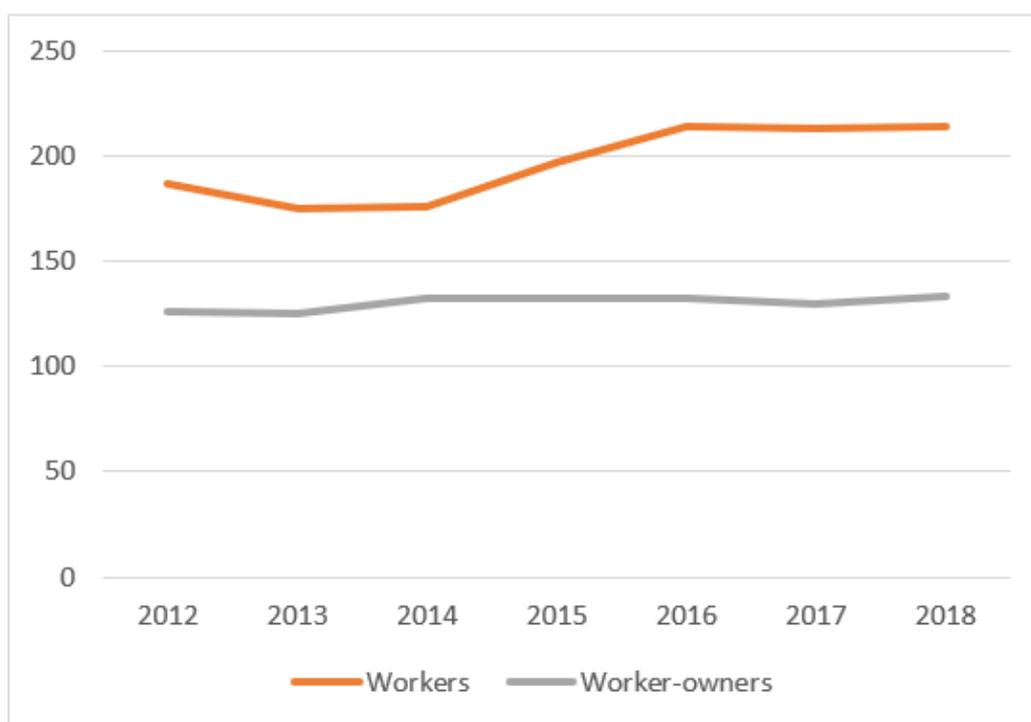
Company sector: NACE - C 2573 - Manufacture of tools

Sector for Basque Country: 10 - Manufacture of fabricated metal products, except machinery and equipment

Note. Own elaboration with data obtained through ASLE from Izar Cutting Tools SAL's annual accounts and the annual accounts of sector companies submitted to EUSTAT (Basque Country).

As displayed in Table 14, in 2018 Izar outperformed the sector in the Basque Country in terms of EBITDA margin. Unfortunately, other sector indicators were only available for previous years and, thus, were only included for reference purposes.

Figure 15 Number of Workers and Worker-Owners at Izar Cutting Tools (2012-2018)



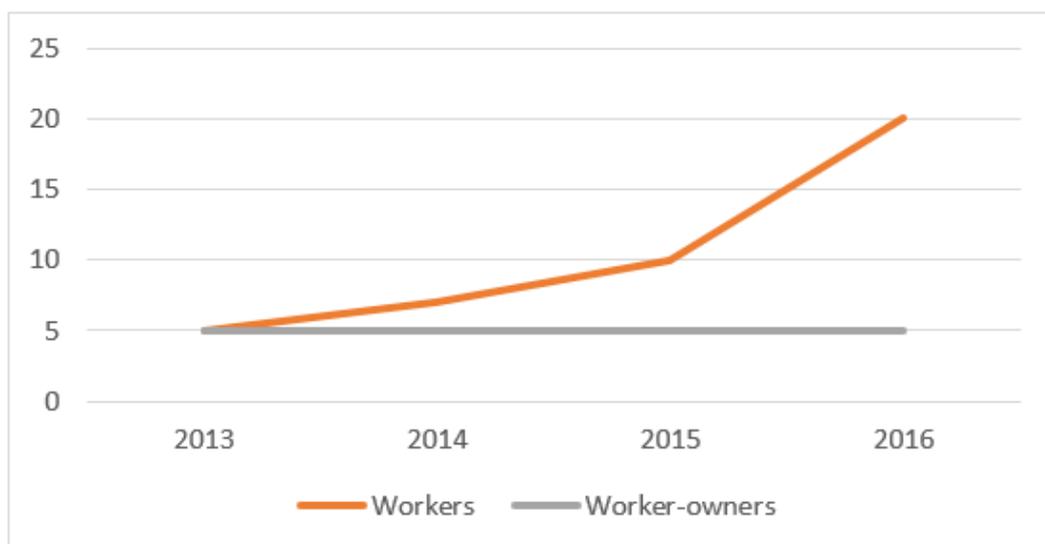
Note. Own elaboration with data obtained through ASLE from Izar Cutting Tools SAL

In the past few years, Izar has been a medium company. Since 2013 it shows a slight though steady growth in the number of workers which has brought it closer to crossing over the 250-boundary into the large company bracket. The number of worker-owners has remained even more stable and did not follow the slight increase in payroll of the past few years.

3.2 Former SL and Potential Participatory Company

Arima Software Design SLL: This limited liability company was founded as an SL in 2013 with five founders and no external investment, meaning it was based on the contributions of all five owners. The company was disqualified in February 2016 because of the limitation to hire new workers. They were reluctant to incorporate more owners to maintain the minimum 51% employee ownership requirement for fear it would affect their management and decision-making process. This is the best example of an SL that was a victim of its own success during its initial years. Another important aspect is that none of the founders capitalized their unemployment benefits, meaning the SL model was not taken advantage of to its full potential.

Figure 16 Number of Workers and Worker-Owners at Arima Software Design (2013-2016)



Note. Own elaboration with data obtained through ASLE from Arima SLL

As made evident in Figure 16, Arima quadrupled its size during its years as an SL, while the number of partners stayed the same. Unfortunately, no information could be obtained about its later years as a conventional company; therefore, I cannot know if they continued as a participatory company or they maintained a clear-cut separation between owners and employees.

An interesting point that arises from this case is motivation to grow. Since the company prioritized growth over the SL qualification, it becomes clear that the owners had growth as one of their objectives. Being one of the entrepreneur factors that determine the most whether a firm grows, I wonder whether the other companies that are still qualified are motivated to grow and therefore actively seek it, or whether they are satisfied with the current size of their business. As indicated in section III.2.2, while survival is universally sought, growth is not.

V. Discussion

1 SLs vs Conventional Companies in Spain

Spanish companies in the last decade had a stable average size at around 10 employees each. SLs, on the other hand, were always below that level but their average size has been increasing at a faster rate, potentially catching up with other companies in the coming years.

Although one could think that this is a positive sign for SLs, in combination with other data, I can arrive at the opposite conclusion, that the average size is growing as the result of a type of legal entity that is losing popularity, therefore having fewer registrations every year and, as a result, fewer smaller companies with the potential to grow. This is further supported by the DCM analysis: After 2014, employment generation across all types of companies and sizes recovered in Spain, while in SLs it only picked up in larger firms, with micro companies displaying negative values every year.

It remains to be seen whether these results are due to a model that is flawed in itself. In theory, the model appears to positively affect most growth factors in a way that would help companies flourish, but in reality, the employment generation numbers do not go in this direction and do not show signs of growth. While a study encompassing all Spain would be required to arrive to a nationwide conclusion, FEANSAL (2012) already hinted in 2012 in Andalusia that issues underlying the SL model might be due to its implementation, since many ignore all the benefits that are available to qualified companies. This suggests employment generation might be hindered not by SLs that do not grow but by new enterprises that are undertaken under a different type of legal entity.

Another aspect that suggests the SL model helps growth is that medium and large SLs are indeed generating employment at excellent rates according to the DCM analysis. Ideally, a cohort analysis like that of the Basque Country would shed light on the issue.

Disqualified SLs remain a mystery, as data is not systematically collected in Spain, but an analysis of what happens with those companies and whether they continue to operate as participated companies would be interesting to find out whether they 1. survive, 2. continue to foster employee participation, and 3. grow. This is the missing piece in the SL puzzle that I need to fully analyze their potential as business incubators.

What is clear after the data analysis is that the 2015 law did not help SLs enough. New registrations did not pick up, smaller SLs struggled to generate employment, and if growth does happen, then it might take place after disqualification when no data is currently available to assess the performance of would-be participatory companies.

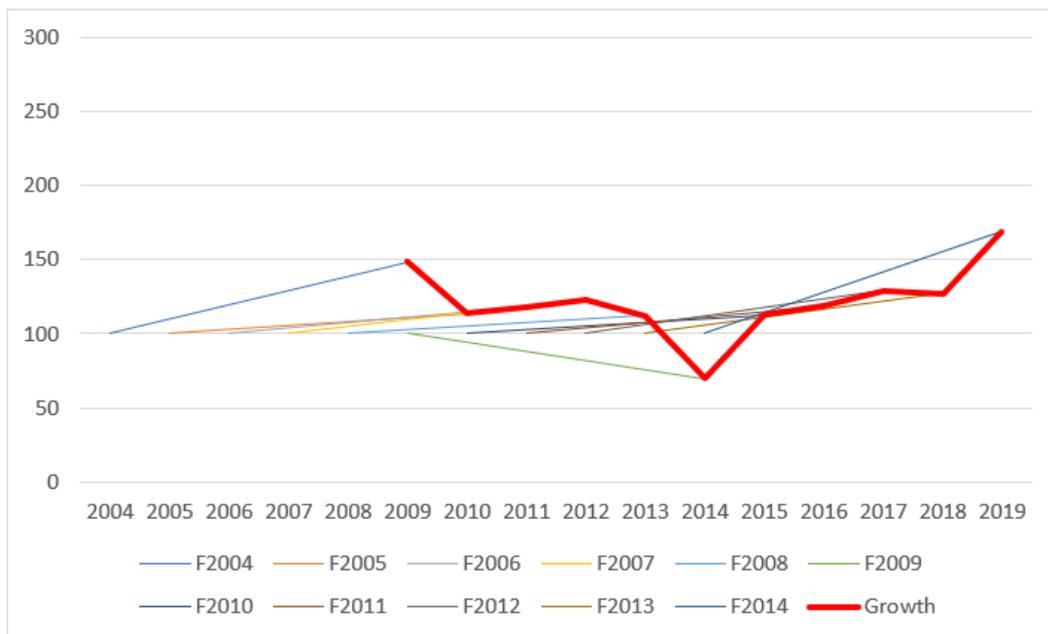
2 Growth of SLs in the Basque Country

Employment generation data in our DCM analysis has shown that Basque SLs struggled more than conventional companies during crisis years as they proportionately lost more jobs. After 2014, however, small SLs recovered and generated more employment in relative terms than their conventional counterparts. Medium and large companies also display positive numbers, although a comparison might not be fair given the small number of SLs in this category. One of the most salient results is the lower performance of micro SLs when compared to conventional micro firms, which up to 2013 could be interpreted as companies shrinking or disappearing, but from that moment onward, it could also be a reflection of the strong decline in new SL registrations that ensued and that continues to this day.

The fact that the average size of SLs remains stable is a good sign in terms of growth, although it does not counter the fact that the SL model in the Basque Country is declining in popularity despite the efforts of the government to support it. The impact of the 2016 tax reform in the Basque Country is mostly visible in the relative employment generation numbers of 2017 and 2018, when compared with those of Spain: While Spain's numbers are negative, Basque SLs did generate employment. Thus, although the 2016 reform did not encourage

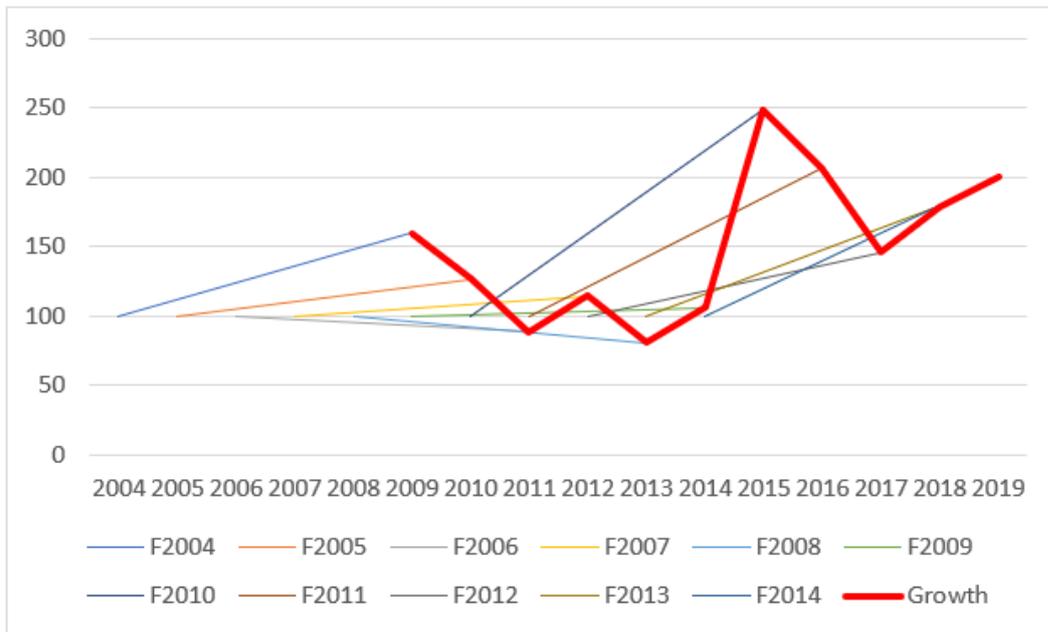
entrepreneurs to register businesses as qualified SLs, it may have helped existing businesses. This is questioned by the fact that while the employment generation by Basque SLs outperformed that of Spanish SLs, Basque SLs do not seem to have outperformed Basque conventional companies in employment generation, thus casting doubts on the role of the 2016 reform. Moreover, while the average size of SLs did increase after 2016 and continued to do so thereafter, this phenomenon could also be the result of the sustained decrease in number of new micro-SLs (which drives the average size up).

Figure 17 Relative Growth of Five-Year-Old Conventional Basque Firms - Cohorts 2004-2014



Note. Own elaboration with data from EUSTAT.

Figure 18 Relative Growth of Five-Year-Old Basque SLs - Cohorts 2004-2014



Note. Own elaboration with data from EUSTAT.

The cohort analysis provided me with a clear picture of how Basque companies grow in their first five years after registration. In general, all cohorts have performed better on average during their first three years (years 0, 1 and 2), but then their growth rate was surpassed by that of conventional companies. Thanks to the way the data set is designed, I can rule out bankruptcy and disqualification as potential causes. Instead, actual growth stagnation is happening in these companies that survive at least four years after registration.

One possible interpretation is that the limitations imposed by the SL model are reached at year three, and then companies choose to remain qualified but with a slower growth rate or they prioritize growth and give up their SL qualification. The latter are unfortunately invisible in my thesis, as no database on disqualified companies is currently available. However, this is backed up by my case studies: while they are not representative of the whole population, they all follow the same trend. Those that are still qualified SLs display slow growth rates (if any), while the only case study (Arima) with a significant growth rate quickly opted out of the program with prospects of continued growth.

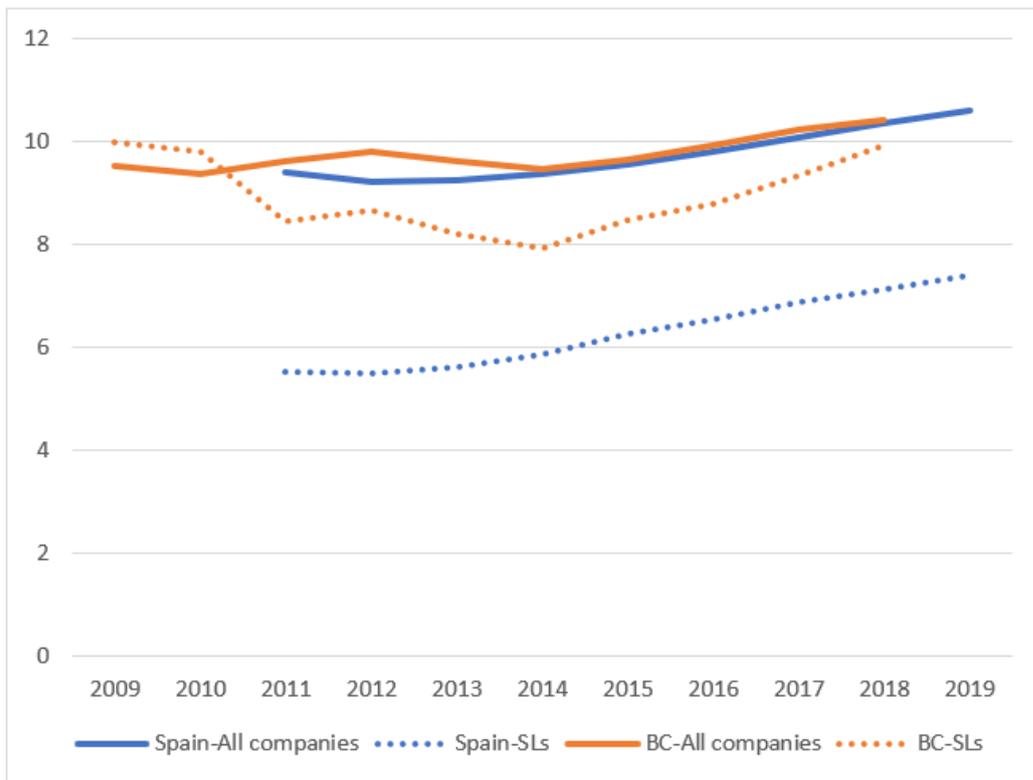
When studying cohorts within the timeframe they evolved in, I have found that during those first years, SLs outperformed conventional firms when the economic situation was positive or, if negative, it was known to them. This last scenario was the case of group number three (cohorts 2009-2012), consisting of firms founded during years of economic hardship but therefore knowledgeable of what the situation was, as opposed to group number two (cohorts 2006-2008), which struggled to adapt to the unexpected. With this data, I can arrive at two opposite conclusions: First, a positive one for SLs, in which even though group number two shrank in size, at least it survived, while conventional firms grew because I am only looking at those that survived to make it into my test group; or second, that those SLs in group number two were not fast enough to adapt to the unexpected changes in the economic environment as opposed to conventional firms. Data on survival rates for these years would help untangle this issue but it was not fully available for this thesis to arrive at a firm conclusion.

In the cohort analysis, the effect of the 2016 tax reform on surviving companies might explain their outperforming of conventional firms, although causality is not that clear since the 2010 cohort also displays a remarkable increase in size in the 2010-2015 period, prior to the reform.

3 SLs in Spain vs SLs in the Basque Country

Unlike in all of Spain, despite the loss of popularity and drop in registrations, SLs in the Basque Country have a similar average size to that of the whole population of companies. (Refer to Figure 19 below for the comparison.)

Figure 19 Yearly Average Size of Companies in Spain and the Basque Country



Note. Own elaboration with data from MITRAMISS and EUSTAT.

Since a cohort analysis in Spain was not possible, this comparison can only be done in terms of growth as employment generation as per the DCM analysis. The first coincidence is the loss of employment by micro-SLs, which remains a constant for every year in both jurisdictions, possibly because both display a decline in new SL registrations. It could also be a consequence of smaller firms' greater vulnerability to their surroundings due to their limited ability to modify their environment, a factor described in Fadahunsi (2012).

Related to this point is the fact that although micro-SLs in both jurisdictions should have better access to capital thanks to the possibility to share ownership and to capitalize on unemployment benefits, they did not outperform their conventional counterparts in employment generation, setting an example contrary to Fadahunsi's statement that "small businesses in which owners are willing to share equity tend to be reported to be more likely to grow" (Fadahunsi, 2012).

In terms of overall employment in all types of companies, the Basque Country had positive employment change numbers in 2015 and not earlier in 2014 like Spain. Moreover, employment generation in the Basque Country has been more modest than in the rest of the country. A possible reason behind this phenomenon is that in 2008, prior to the crisis, the activities that employed the most people were the manufacturing industry (23% of all active population), commerce (16%), and construction (11%). While high industrialization levels like those in the Basque Country are one of the factors that positively influence growth, industry was severely affected by the crisis together with commerce and construction. Recovery required a re-structuring of the economic activities and, in 2019, the activities with the most employees in the region were manufacturing (19%), commerce (14%) and health and social services (10%), while construction was in 7th place with 6%. Activities that grew in relative terms are tourism, professional services, administrative services, education, entertainment, and other services. On the other hand, employment in 2008 in the rest of Spain did not rely so heavily on construction (7%) and manufacturing (12%) and was more evenly distributed among the other areas. This difference and the subsequent change required had both a direct and indirect impact on SLs: It directly affected those firms associated with the most affected sectors (e.g. Kimu Bat) and it indirectly affected the others by slowing down economic activity in general.

When comparing employment generation but only in SLs, the situation is slightly different: While Spanish SLs display the first positive number in 2014, they show negative numbers again between 2016-2019, possibly due to the drop in new SL registrations. In the Basque Country, however, employment generation was positive in 2015 (a year later than in Spain) but years 2017 and 2018 were positive as well, as opposed to the situation in the rest of the nation that showed employment loss. This is despite the drop in new SL registrations. While this could be interpreted as a positive outcome of the 2016 tax reforms to boost employee participation, this is called into question by the fact that Basque SLs did not outperform Basque conventional companies in terms of relative employment generation.

Given the differences in the composition of the economic activity in Spain and the Basque Country, it is difficult to assess with the data that I gathered

whether their exercise of their tax autonomy through tax modifications helped them adapt to the new environment better than the rest of the country and whether this translated into more employment generation and growth. Perhaps this could be studied by analyzing the 2020 tax reforms that followed the Covid-19 pandemic, but this is a topic for another study when the necessary data becomes available. On the other hand, when analyzing the average size of Basque and Spanish SLs (refer to Figure 19 above), there is a notable difference over the last decade in favor of Basque SLs. This difference does not exist when comparing all Basque companies against all Spanish companies, thus suggesting it is not the overall economic situation but rather the specific SL framework that is making a difference.

A similarity between the SL model in both jurisdictions is that, despite not having a study on disqualified companies like the one from Andalusia, it seems that both in the Basque Country and in all of Spain, further changes are needed to revive the SL model and boost employee participation in all its forms. I believe by studying those that disqualify, their reasons, and whether they continue to support employee participation to some degree afterward or not is the key to finding out if the SL model is flawed or it just requires better communication to educate the population on the benefits it can offer.

VI. Conclusions

1 General Conclusions

I consider that a separation between the existing SL model and the concept of employee participation in all its forms should be made. SLs arose as a way to boost employee ownership. They did not originate in the law but in reality: It was that first transport company that initiated the movement and then the law evolved to accommodate to that reality both in 1997 (first law) and in 2015 (reform law). And the model is still in constant development as the legal materialization of employee participation.

The model, however, is lacking. It is losing popularity despite its recent reform and some entrepreneurs still struggle with its rigidity. Therefore, growing companies appear to be growing out of it.

Hypothesis #1: “Despite their waning popularity, SLs are an effective tool that boost growth”

Hypothesis number one was confirmed by the cohort analysis in the Basque Country. Five-year-old companies have displayed faster growth rates during their first three years than their conventional counterparts. This analysis also showed what I later confirmed with the case studies and the information from the Ikeri reports: The SL model as it is currently formulated hinders growth and companies have to grow out of it if they seek to increase their size at a certain rate. I can take the idea further and conclude that employee participation is an efficient tool to boost growth, despite the way it is currently implemented in Spain.

Hypothesis #2: “Companies of certain size categories profit better from the SL model as a catalyst for their growth; for instance, micro and small businesses might use the model up until they grow into the medium bracket, which would indicate that SLs work as an incubator.”

This hypothesis was partially refuted as it was larger SLs that were able to generate the most employment in the DCM analysis, while micro-SLs were the most affected. This was true both in Spain and the Basque Country. Moreover, when compared with their conventional counterparts, employment generation in larger-than-micro companies was not clearly higher in SLs or in conventional companies. Thus, while it seems clear that micro-SLs struggled the most, it remains to be seen whether larger SLs were profiting better from the SL model because of employee participation or simply because, as larger companies, they were more resilient.

Hypothesis #3: "The Basque Country is better prepared and thus SLs fare better than in the rest of the country."

While it is true that the Basque Country is economically more developed than the rest of Spain, due to how its economy is configured, it was especially affected by the 2008 financial crisis and, therefore, it is difficult to assess whether Basque companies, including Basque SLs, were better prepared.

In the years I can compare employment generation for Basque and Spanish SLs, it is not clear that one group of companies outperformed the other. Basque SLs seem to have lost the most employment (in relative terms) during the crisis years, but they have generated more employment (in relative terms) in 2017-2018, although the role of the 2016 tax reform in the Basque Country is not clear, as it was previously stated.

Another point worth mentioning is that the average size of Basque SLs has been higher over the last decade than that of Spanish SLs, and this difference is not present between Spanish and Basque conventional companies, thus suggesting that the reason behind it is not the higher overall economic development in the Basque Country but the SL legal framework itself.

This hypothesis could have been fully confirmed if the Basque and Spanish economies had had a more similar composition and if the Basque economy had not been particularly affected by the crisis. A possible interpretation is that if the Basque Country had not been more prepared and had not exercised

its tax autonomy correctly, then the impact would have been greater during the crisis years.

2 Growth Factors in this Analysis

After analyzing the data within the growth factors framework summarized in Fadahunsi (2012), I found it to be most appropriate for case studies rather than for the aggregate data analyses I carried out.

In terms of firm factors, ownership form was a constant variable in the aggregate datasets for the DCM analysis. All other firm factors such as sector, company age, company size and location (rural/urban) were different, and their interplay could have unpredictable results. In the cohort analysis, age was also fixed, and I found that in combination with the SL ownership form, younger firms tend to grow faster than older conventional firms.

Within entrepreneur factors, the one that stood out the most was motivation to grow. While a deeper study would be ideal, I noticed that among the case studies, the company that grew the most was the one that prioritized growth over their ownership form. Further studies should be carried out to find out whether existing and former SLs have growth as one of their objectives.

Strategy factors are extremely company-specific, as each business has their own way of entering a market and succeeding in it. In my overall analysis, however, I noticed that even though the Basque Country is a highly international economy and internationalization plays an important role in growth, this was partially neutralized by how the crisis particularly affected the Basque economy. In terms of financial resources, the capitalization of unemployment benefits helped set up some of the companies in the case studies, but it did not seem to have made a difference in terms of growth. And while some of the case studies had lower indebtedness ratios than the sector average (Komunikazio Biziagoa, Hirunox and Izar), others did not and relied on external funding (Gran Sol and Kimu Bat, the latter perhaps due to its focus on innovation). Moreover, none of these companies showed significant signs of growth despite their access to capital through employee participation.

Regarding external factors, their importance became visible not only with the impact of the 2008 financial crisis but also with the separate tax regulations in both jurisdictions: In 2017-2018 employment was generated among Basque SLs while Spanish SLs displayed negative numbers, and 2016 is when the average size of Basque SLs stops dropping and starts growing. Moreover, in the cohort analysis I classified Basque cohorts according to their relation with the financial crisis and found that, in combination with the ownership structure, Basque SLs outperformed conventional companies in terms of growth except when companies were registered prior to, and therefore unaware of, the imminent crisis, thus questioning the ability of SLs to quickly adapt on the one hand, while also suggesting that the issue could be that conventional companies had a survival problem during the same period.

3 Policy Recommendations

I have identified two main issues regarding the existing SL model: one pertaining to implementation, which hinders the creation of new SLs; and another pertaining to the design of the model itself, which is both making growth more difficult while also obscuring the information on those companies that grow after disqualification.

First, the SL model appears to have implementation issues in the sense that the public needs to learn more about its existence and how it works in order for potential entrepreneurs to be able to consider it and profit from it. While the 2015 reform helped increase the number of qualifiable companies (i.e., companies that met the requirements regardless of whether they applied to become SLs or not), the actual number of new SLs did not; this remains true both for Spain in general and the Basque Country in particular. As explained in Bel Durán & Lejarriaga Pérez de las Vacas (2018), this points at two main causes: the lack of communication, due to which entrepreneurs are not aware that they can apply to become SLs; and the lack of incentives to make the concept attractive, such as the modest tax benefits to which SLs are entitled. To these, I add a combination of the two: the lack of knowledge on those incentives once the

SL is in operation. To solve these problems, a joint effort from all government levels should be carried out to promote SLs and employee participation in all its forms so that the “need for a change in mentality” mentioned in the IKEI reports loses importance.

Second, existing companies seem to still have issues with the restrictions to hire employees even after the 2015 reform, and this is made evident by how the only case study that displayed significant growth disqualified in the process. In order to fix this issue, I suggest that instead of lowering the requirements further, a deeper redesign of the model be carried out. I believe that a progressive model would be a better fit than a binary “qualified/non-qualified” scheme. Instead, companies could be rated according to a set of parameters and then sorted into different categories within a hierarchy, each with a different set of benefits (e.g. more tax incentives for companies with a higher employee participation score and lower non-owner workers, as their access to external capital is more limited). This classification should be carried out automatically for all existing firms using current databases rather than companies having to actively seek it through extra bureaucratic processes. In this sense, participatory companies would gain more visibility as they would fall within a category within this progressive classification system, rather than their current status where no information is systematically gathered about them as they are in the same class as all other conventional firms.

4 Data Collection Recommendations

The data collection difficulties encountered during this investigation gave rise to the following recommendations on how data could be collected to better assess the SL model. In this sense, the different statistical services providers at the various government levels could strive to unify data classification criteria to ensure it can be compared. Unification criteria should be met regarding:

- Collection date: By using unified data collection dates, one can ensure that the resulting data from different administrative levels is comparable, minimizing possible biases. Currently, some data is

gathered at the end of the fiscal year, while other is gathered at the beginning.

- Size classification: Currently, some statistical services use different size brackets to classify their data, and some of their statistical products do not offer the option to break data down into size brackets.
- Sector classification: There are currently several statistical products (especially within the Basque Country) with different classification systems to divide data into sectors, thus rendering the comparison across statistical products impossible. Moreover, some datasets show incomplete information for certain sectors.

Besides database unification criteria, there is the issue of tracking disqualified SLs and participatory companies. Since the concept of participatory company was introduced, those firms have been considered conventional companies within the existing databases, as there is no system in place to identify them. The same happens with former SLs, regardless of whether they are still fostering employee ownership to a certain degree or not. This needs to change so that these firms can be analyzed separately, perhaps using the progressive classification model suggested above, or some additional labeling within the current framework.

5 Potential Transference into Argentina

Argentina also has set up an unemployment benefits system for registered workers terminated without a cause. Benefits are paid monthly between 6 to 18 months depending on the age and the number of months the applicant worked in the past three years. Using this as a foundation, a similar system as the one in Spain could be put in place so that applicants can opt to receive the benefits as a lump sum for its investment.

While the Bauen Hotel case mentioned in section I.4.3 is a notorious example of how workers are willing to take on the management of a failing business, it is not the only case in Argentina where employee ownership could have been a solution. Among other cases, I can mention the following:

Sancor: founded in 1938 by 16 cooperatives in the dairy sector, it grew to be one of the major milk producers in Argentina. Created as a cooperative, it built an important international presence by exporting to 30 countries around the world. Sancor encountered severe financial problems in 2006 and 2017 which required external funding to avoid bankruptcy.

Vicentín SAIC: founded in 1929 as a *sociedad anónima* (joint-stock company), the family-owned company became a major agricultural group and the top soymeal exporter in Argentina. The company faced insolvency by the end of 2019 after a credit-fueled expansion, which led the federal government to issue a decree in early 2020 to take over the company and rescue it. The plan was faced with backlash from industry leaders and the general public and the decree was finally repealed.

While these two cases are the most notorious in the country due to their massive size, there are also plenty of smaller companies who could benefit from employee participation as a way to ensure continuity and facilitate growth. Among these are family businesses, which play a major role in the Argentine economy and struggle to ensure continuity from one generation to the following. These companies could profit from an employee-participation legal framework similar to the SL model in Spain that would offer them an alternative solution.

VII. References

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