Ownership Beyond Borders: New Research on S ESOPs with International Workers

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Executive Summary

The Employee Stock Ownership Plan (ESOP) is a uniquely American structure that allows employees to own a stake in the company where they work. With more than 10 million participants in more than six thousand U.S. corporations, ESOPs are the most prevalent form of broad-based employee ownership in the United States.

We know that ESOPs benefit U.S. employees. Research shows they can deliver considerable financial wealth to workers over time and are associated with increased benefits, training, and employee participation. We also know that ESOPs can strengthen the American companies that adopt them, especially when firms combine employee ownership with a supportive "ownership culture," or an environment in which workers have a voice and come to think of themselves as true partners in the business.

In today's globalizing economy, many U.S. ESOP companies are multinational corporations with global workforces and operations. This report takes an unprecedented look at the benefits and challenges of employee ownership for such multinational ESOP firms. Drawing on interviews with executives at seven successful S ESOPs and other leading experts, it presents careful analysis and detailed case studies to explore what a culture of ownership can look like for ESOP companies with international workforces.

This research was guided by three broad questions:

1. How do international employees benefit from working for U.S. ESOP companies?
2. Do ESOP companies include international employees in equity ownership or ownership-like opportunities?
3. How do multinational ESOP companies themselves benefit from extending their ownership cultures globally?

KEY FINDINGS

- International employees benefit in a variety of ways from working for U.S. ESOP companies, including through increased financial security and increased engagement at work. In at least one instance described in the report, employee ownership proves "life-saving," providing workers fleeing geopolitical turmoil with the resources they needed to establish themselves in a new home.
- Multinational ESOP companies appear to derive competitive advantages in international markets from being employee-owned. Executives report numerous benefits in terms of employee productivity, recruitment and retention, corporate reputation, and customer loyalty.
- Legal, regulatory and cultural barriers make it challenging to include non-U.S. workers in an ESOP directly. In companies where only U.S. employees are covered, however, executives find a multitude of other means to ensure that non-U.S. employees have opportunities to benefit financially from company success—for example through grants of synthetic equity or profit sharing.
- Profiled ESOP companies display strong commitments to building company-wide cultures of ownership and excellence that transcend borders and include non-U.S. workers. Many develop and implement programs and initiatives designed to promote a spirit of collaboration and cultivate an "ownership mindset" globally.

In sum, this novel research suggests that U.S. ESOP companies with non-U.S. employees can and do integrate their global workforces into their ownership practices and cultures, and that doing so positively impacts both the employees and the companies themselves. ESOP firms with international employees overcome unique challenges in order to build cultures of ownership that extend across borders. Our interviews indicate that this can be well worth the effort for all involved.

With the employee ownership movement growing, and ESOPs increasingly seen as a major tool for strengthening business and driving growth that has bipartisan appeal, the analysis and case studies of multinational ESOP firms presented in this report offer new insights and models for today's globalizing economy.

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Introduction

The Employee Stock Ownership Plan (ESOP) is a uniquely American form of employee ownership. ESOPs are qualified defined contribution retirement plans that allow employees to own a stake in the company where they work. In the United States, over 6,400 ESOPs currently cover more than ten million workers, according to the National Center for Employee Ownership (NCEO). A sizeable body of research demonstrates that ESOPs are associated with numerous benefits for the corporations that adopt them and for their U.S. employees (Kruse 2022). Some of these benefits—such as greater employee engagement, reduced turnover, and increased productivity—are magnified when the firms combine employee equity ownership with a supportive "ownership culture," or an environment in which workers have a voice and come to think of themselves as true partners in the business (Blasi and Kruse 2023, NCEO 2024).

Many U.S. ESOP companies have global operations and employ non-U.S. workers. Until now, little has been written about what a culture of ownership can look like for an international workforce. The purpose of this report is to explore the benefits and challenges of employee ownership in global U.S.-based ESOP firms with non-U.S. employees, while focusing on three important questions:

This research was guided by three broad questions:

1. How do international employees benefit from working for U.S. ESOP companies?
2. Do ESOP companies include international employees in equity ownership or ownership-like opportunities?
3. How do multinational ESOP companies themselves benefit from extending their ownership cultures globally?

Our research finds that, in the global ESOP firms studied, building an ownership culture that transcends borders appears to bring tremendous benefits. Because the ESOP is specifically an American structure, however, companies must overcome certain challenges to extend ownership internationally.[1] Although a very small number of firms have managed to enable international employees to participate directly in the U.S. ESOP, most use alternative approaches to ensure that as many as possible come to "think like owners" and share in the company's profits or long-term growth in its value.

> *Building an ownership culture also requires steps to foster a sense of shared mission and to educate workers about their benefits and what it means to think like an owner.*

Our primary source material consists of a series of interviews with executives at seven different S corporation ESOPs ("S ESOPs") and with other experts. Brief overviews of each company are presented in the "case study" boxes featured throughout the report.

[1] Rosen and Schneider (2012) provide what is to our knowledge the most comprehensive available overview of the general issues involved in extending employee ownership internationally. Busaan and Pek (2023) present one of the few detailed case studies of the topic in their exploration of the multinational professional services firm and S corporation ESOP company HDR, Inc.

Benefits of Including International Employees in an Ownership Culture

In the course of our interviews with executives from ESOP companies with non-U.S. employees,[2] we heard numerous examples of how these individuals benefit from being included in a culture of ownership and participating in arrangements that share the value created by the firm. Some leaders described a "halo effect," whereby international employees derive advantages simply from being part of a U.S. ESOP company, regardless of the specific techniques the company may use to share ownership with them.

"The workers benefit in a lot of ways from working for a U.S. ESOP that is a good employer," says Stephen Smith, Chairman, President, and Chief Executive Officer at Amsted Industries. Alex Ketzner, Tax Director at Burns & McDonnell, remarks that it is "just part of our DNA" as an ESOP company, and that ownership "comes through and infuses everything, infuses employees' experiences, over and above any specific benefit." Moreover, companies themselves seem to reap substantial benefits from extending ownership internationally beyond those that redound to the individual employee-owners themselves.

In particular, the following benefits were repeatedly cited by our interviewees as areas in which the impacts of global employee ownership can be most profound: (1) employee mindset, engagement, and productivity; (2) recruitment and retention; (3) employee financial security, and (4) corporate reputation and customer loyalty.

1. Employee mindset, engagement, and productivity

Without exception, the S ESOP executives with whom we spoke pointed to what they see as remarkably positive effects of a global ownership culture on workers' mindset and the pride that they take in their jobs, which in turn contribute to all-around better performance and higher-quality work products. Burns & McDonnell's Ketzner describes how his company's ESOP is "broad-based and similar for everyone, and really just drives how we do business and how we serve our clients. We believe that we serve our clients better than similarly situated peers because of the way that employee ownership influences our employee-owners' behavior."

[2] By "non-US employees" we mean those who reside abroad and who are not U.S. citizens.

Barbara Wight, Chief Financial Officer of Taylor Guitars in El Cajon, California, likewise offers an example of how efforts to build a global culture of ownership have encouraged Taylor's workers all around the world to take a broader perspective on how their contributions matter to the company's success: "Our European subsidiary's sales have recently been making up for sales softness in Asia, and I would say that—maybe not all—but many of the workers in Europe are now thinking a bit more about the overall company, and about how the decisions that they make every day can really have an impact."

Importantly, those we spoke with made clear that these benefits, while intangible in many respects, are enjoyed by both companies and employee-owners themselves. Greater productivity may be good for the bottom line, but a deeper engagement with one's work is also valuable for employees, according to the executives interviewed.

2. Recruitment and retention

A related point that also came up repeatedly in our conversations is that employee ownership can be a major boon for recruiting and retaining workers – not just in the U.S. but internationally as well. Stephen Smith of Amsted Industries explains how the ownership benefits that his company offers to its managers around the globe are a "psychological differentiator," and says that

> *We do not have a retention issue for our leadership in any country in the world, because they've done very well with the equity and they love the culture that it produces… You can tell that people are just proud to be a part of us. It's not only the pay, but it's that we integrate them into the company too: they come to the U.S. for meetings, they spend time here, we include them in our educational programs, and so on. On a gut level, belonging to a company that's not owned by some anonymous holders of capital, but rather by fellow employees who have become their friends and who they interact with regularly – that's something that's very attractive to people everywhere.*

This kind of dynamic is an example of the "halo effect" alluded to earlier. The impact of an ownership culture can extend even to workers who do not directly participate in an ESOP or ESOP-like plan. (For more on the specific ownership arrangements employed by Amsted, see our case study on the company and the section on "Alternative Routes to International Employee Ownership.")

Susanna Mudge is the former President and Chief Executive Officer and current Chair of the Board of Chemonics International, a global sustainable development firm headquartered in Washington, D.C., that directly includes many non-U.S. workers in its U.S. ESOP. She recounts how the company found, when it re-launched operations in a South American country where it had not had local staff for several years, that former employees were eager to re-join Chemonics' workforce:

> *Employee ownership can be a boon for recruiting and retaining workers – not just in the U.S. but internationally as well.*

> *People were waiting to come on to the Chemonics project because they loved the way we treated our staff. I remember talking to some individuals who we were not able to include in the ESOP about how they were still benefiting from it indirectly. It has helped us to continue to preserve the benefits of our unique culture for everyone, even those who do not participate in the ESOP themselves.*

Similarly, Alex Ketzner from Burns & McDonnell also emphasized the role that his firm's ESOP and global ownership plan play in retaining workers:

> *We have high retention rates and our plans are great recruitment tools. We're here for the long run, we're not chasing short-term results. It's beneficial for us to be able to say that this is a stable place to work. Not only do you get what we see as top-of-class retirement benefits, but you can really plan to build your career for the long term.*

That said, others cautioned that these advantages can take time to be fully realized for companies that are new to employee ownership or to extending ownership internationally. This is partly because the upsides may be less visible to workers when there is not yet a track record of individuals leaving the company after having accrued significant assets in an ESOP account or comparable plan.

Barbara Wight of Taylor Guitars, which directly includes Mexican workers in its U.S. ESOP, says that "we are not retaining people because we have an ESOP. We will someday, but we're not today. From what I can tell, it's going to take five to ten years before we have it as a retention tool." For companies willing to take a longer view, however, the consensus was clear that the advantages can be well worth the wait.

Case Study: Amsted Industries (https://www.amsted.com/)

Amsted Industries is a global producer of industrial components for automotive, commercial vehicle, rail, and building and construction applications that is headquartered in Chicago, Illinois. The company was founded in 1902 and first launched its ESOP in 1985, ultimately becoming 100% employee-owned in 1998. It now has annual revenues of nearly $5 billion and operates 65 plants on six different continents, with the U.S., China, and Mexico each accounting for roughly a quarter of its 17,000-member workforce.

When Amsted first adopted its ESOP, almost all of its employees were based in the United States. As the company began to expand internationally, its strong belief in fostering a "spirit of ownership" among its workers led it to explore strategies for offering equity-based compensation to employees abroad.

Today, the company operates a stock appreciation rights (SARs) program for 250 of its top managers around the world. SARs are granted annually but come with a seven-year exercise period, which helps to provide incentives for company leaders to take a long-term view while also ensuring that they are able to cover tax liabilities at the time these are incurred. For workers on the plant floor, Amsted relies on other strategies that are not explicitly based on the current share price. At one its facilities in Mexico, for instance, non-managerial employees receive annual bonuses that are related to overall corporate performance.

Stephen Smith, Amsted's President and Chief Executive Officer, explains that the company is leaving the door open to embracing more broad-based SARs or phantom equity awards in the future, but that the existing program has been an important "psychological differentiator" for those who do participate and that "we do not have a retention issue for our leadership in any country in the world." He attributes this not only to the financial benefits, but also to the fact that Amsted's managers are proud to work for a company with a strong ownership culture – and that this culture shapes the mindset of those on the plant floor as well.

Smith holds out hope that, as the concept of employee ownership as a "healthier kind of capitalism" gains momentum worldwide, international cooperation around harmonizing the tax treatment of ESOPs could someday make it easier to extend ownership stakes to workers around the world on the same terms as those in the U.S. While he admits that even some ESOP advocates may dismiss this as a "nirvana that will never come," Smith is optimistic that the future is bright for companies looking to take employee ownership global.

3. Employee financial security

Arguably the most significant benefit of employee ownership for non-U.S. workers – and for their U.S. counterparts – is the financial reward that comes with participating in an ESOP or other type of equity compensation plan. Indeed, previous research by ESCA and NCEO has found that U.S. ESOP participants have, on average, more than twice the total retirement account balances of the typical American worker (Wiefek and Nicholson 2018).

Darin Olivarez, Treasurer of the Kansas-based S ESOP company Black & Veatch, expects that "the cash payouts our global employees start to receive" from the global ownership plans that the firm first adopted about seven years ago "will represent a meaningful part of their overall annual compensation, and, if reinvested, would be a contributor to significant long-term wealth creation. It will be a true differentiator for our people outside of the U.S."

Some called attention to the fact that international workers who take part in these arrangements are not only in a stronger financial position than their own-country peers, but that they also do exceptionally well even by U.S. standards. Joey Nestegard, who serves as Chief Business and Financial Officer of Schweitzer Engineering Laboratories in Pullman, Washington, points out that, even though the company's non-U.S. workers do not participate in the U.S. ESOP, the alternative plans that it offers internationally mean that, by and large, these individuals receive employer retirement contributions that look "similar to or even slightly higher than those of the average American."

While some critics may argue that ESOPs expose participants to excessive risks owing to a lack of diversification, studies on this topic have consistently shown that employee ownership benefits tend to come *on top of* rather than *in place of* other forms of compensation and that U.S. workers with ESOPs are highly likely to participate in a secondary pension plan as well (Kruse *et al.* 2022). Anecdotally, this pattern seemed to be borne out among the S ESOP companies we studied, none of which reported using employee ownership as a substitute for other forms of compensation, and several of which described offering more than one type of retirement or savings plan to their employees.

Another particularly striking example of the financial benefits that employee ownership can afford to international workers comes from Chemonics, which for many years had administered large contracts in Afghanistan. With the return to power there of the Taliban in 2021, many Afghan employees were forced to flee the country with almost no notice and departed with little but the clothes on their backs. William Keller, former chief financial officer and current executive for Chemonics, explains how the company acted to accelerate the ESOP vesting schedule for the employees in that country in order to give them an opportunity to access their funds. For a number of those affected, the money they received was the primary or only financial resource that allowed them to establish themselves in a new place:

> *In some cases these individuals were able to get to another country and have a nest egg they could access to put them on their feet. In one instance, we had an Afghan employee who was already living in the U.S. who told us that having that funding was a big help, because his family members had all lost their jobs and he had to support them for a period of several years. That really shows the power of this: the intent may be for it to be a longer-term retirement benefit, but there are other ways in which [an ESOP] can be life-changing.*

4. Corporate reputation and customer loyalty

At a time when many consumers feel strongly about the importance of corporate social responsibility, being known as an employee-owned firm can carry important reputational benefits. Although no company we spoke with pointed to this as a primary factor in their decision to become an ESOP or to broaden ownership to their international workforce, greater customer loyalty was occasionally mentioned as an ancillary bonus.

Taylor Guitars' Wight indicates that this was certainly the case for her company, when it became what is believed to be the first ever to establish an ESOP that included both U.S. and non-U.S. workers from its inception: "People love that we're an ESOP company," she says. "They want to associate with us. With a lifestyle good, it's really important that consumers have a good feeling about it. That's not why we did it, but I do think one of the outcomes has been that it's really helped us from a brand perspective."

While the general public's awareness of what it means to be employee-owned may not be universal, anecdotes like these suggest that when consumers hear about companies turning to ESOPs and come to understand what that entails, they tend to like what they hear.

Case Study: Black & Veatch (https://www.bv.com/)

Black & Veatch is a Kansas-based engineering, procurement, consulting, and construction firm that specializes in "critical human infrastructure" on a global scale. The company's diverse solutions span water, power and telecommunications but go deeper into decarbonization, clean transportation, grid solutions, renewables, all with a focus on sustainability and resiliency. Its client segments include energy utilities, municipal water/wastewater, U.S. federal government, process industries, and commercial, industrial, and manufacturing industries. Founded in 1915, Black & Veatch established its ESOP and transitioned from its historical partnership structure to become 100% employee-owned in 1999, achieving 100% ESOP ownership in its centennial year of 2015. As of 2023, the company's global workforce totaled over 12,000, with the majority based in the United States.

As Black & Veatch's international presence steadily grew over time, management increasingly saw a need for ways to extend ownership to workers who resided abroad. Treasurer Darin Olivarez describes how the company's leaders increasingly recognized that "we wanted to be able to have conversations with all of our employees about what it means to be an owner and how everyone shares in the success of the company, versus having to tailor our communications about how great the company is doing – but largely for the benefit of our U.S. employees."

Shortly after becoming 100% ESOP-owned, Black & Veatch launched its Global Employee Ownership (GEO) Plan in 2017. Although the details of how this plan is implemented vary from country to country – and does not currently cover all nations where the company has a presence – it is nevertheless the case that over 99% of Black & Veatch's professional workforce participates in some form of employee ownership, either through its ESOP or GEO.

In most instances, GEO awards take the form of synthetic equity or phantom stock awards with a "cliff vesting" structure. This means that full vesting occurs a certain number of years after the award and employees receive a cash payment at that time. In countries where tax liability would be triggered upon award rather than vesting, stock appreciation rights (SARs) are used instead.

Dusty Friesz, Black & Veatch's Associate Vice President of Finance and Global Tax Leader, points out that a cliff vesting and payout period for GEO awards means that non-U.S. workers may not necessarily be incentivized to have the same truly "long-horizon mindset" as the domestic ESOP participants. Nevertheless, Olivarez is confident that, as the GEO awards continue to pay out in future years, "this is going to be a true differentiator for our people outside the U.S. You can see that the ownership mindset is really starting to take root." Friesz adds that "it's been a long journey" to get to this point, "but employee ownership is about sharing the success of the company with everyone who helps create it."

Barriers to International Worker Participation in U.S. ESOPs

In the half-century since the passage of the Employee Retirement Income Security Act (ERISA) of 1974, the first federal law to expressly regulate ESOPs, the number of ESOP companies in the U.S. has grown fourfold and the percentage of U.S. workers who participate has risen by a factor of twenty.[3] However, while this substantial increase in ESOP prevalence has taken place against a backdrop of economic globalization, exceedingly few non-U.S. employees of U.S. ESOP companies participate in these plans. Although no official tally exists, our research suggests that the number of firms currently extending ESOP benefits to international workers can almost certainly be counted on one hand.[4]

There is a widespread perception – even among some employee ownership experts – that international workers are statutorily prevented from participating in ESOPs.[5] However, David Binns, Senior Consultant at ESOP Services, explains that “the law in the U.S. is entirely agnostic about the issue of international versus domestic workers,” even if the “default presumption” has traditionally been that participants will be U.S. employees. At the same time, while bringing foreign workers into ESOPs may not violate any law or regulation, actually doing so is extremely complex and comes with high barriers to entry.

[3] Rosen and Quarrey (1987) estimate that there were approximately 1,600 ESOPs and 250,000 participants in 1974. Data from the U.S. Bureau of Labor Statistics indicate that total nonfarm employment in September 1974, when ERISA was passed, was approximately 78.6 million, while in December 2023 – the most recent month available as of the time of writing – it was 157.3 million. Using the 2023 figures on the number of ESOPs and participating workers from NCEO cited above, this implies that ESOP participation as a percentage of employment increased from around 0.3% to 6.4% (Federal Reserve Bank of St. Louis n.d.). .

[4] The three ESOP companies that we confirmed have extended their actual ESOP to international employees are Chemonics International, Daymon Worldwide, and Taylor Guitars. H.B. Fuller, an American manufacturer of industrial adhesives, established an “international ESOP” in 1992 in which a trust based in the Channel Islands purchased and held company stock on behalf of non-U.S. employees. For more details on this unique arrangement, see Gates and Reid (1994) and Rosen and Schneider (2012).

[5] See, for instance, the web resource about ESOPs maintained by one leading tax advisory and accounting services firm, which suggests that companies with domestically-based employees are the best candidates for ESOP adoption because “[f]oreign-domiciled employees may not be able to participate in [an] ESOP” (GBQ Partners 2023).

As the executives we spoke with made clear, the hurdles to taking an ESOP global can come in a variety of different forms. Our research suggests that the following are the most significant: (1) lack of statutory or regulatory clarity; (2) unfavorable tax treatment of stock grants by foreign governments; (3) conflicts with foreign labor laws; (4) conflicts with foreign securities laws; and (5) cultural or other cross-country differences. We describe each of these below.

1. Lack of statutory/regulatory clarity

While it is not true that workers who are not U.S. citizens or permanent residents are statutorily prohibited from taking part in an ESOP, the law's relative silence on this issue has given rise to certain ambiguities that employers may see as heightening the risk of adverse enforcement action by the Internal Revenue Service and/or Department of Labor.

Chemonics International, which we introduced earlier, is one of the few companies to ever successfully set up an ESOP that covers non-U.S. workers. (For more details on Chemonics, see our separate case study of the company.) Ron Gilbert, President and Cofounder of ESOP Services, worked with Chemonics to establish its so-called "International ESOP" (IESOP) and later joined the company's Board of Directors. He describes how he and management spent three years seeking an IRS *private letter ruling (PLR)*, or a formal statement in which the agency interprets and applies existing law to a specific taxpayer's circumstances upon their request. The intent of doing so was to establish that the planned IESOP was fully compliant with the U.S. tax code.

A PLR gives a taxpayer an advance assessment of how the IRS will view the implications of a particular action or transaction that involves unique or unusual complexities. Unlike laws, regulations, or court decisions, PLRs do *not* create legal precedents and apply only to the specific case at hand. In other words, by issuing a PLR the IRS does not commit itself to making the same determination in the future should another taxpayer raise the same or similar issues.

Chemonics sought a PLR to sanction its IESOP because implementation of the plan required a series of judgment calls that the company worried might trigger IRS scrutiny. In particular, it requested rulings on three points where the law appeared unclear[6]:

[6] For more background on the Chemonics private letter ruling, see ESOP Law Group (n.d.), as well as the Appendix of this report.

a. The meaning of "qualified employer securities"

b. The meaning of "compensation" for purposes of calculating ESOP contributions

c. The tax-deductibility of ESOP contributions for international workers

The IRS ultimately issued a PLR with favorable rulings on these three points. As a result, Chemonics was able to proceed with establishing its IESOP comfortable with how the IRS would view various mechanics of the plan. However, since the PLR only applied to this one specific case, it does not offer any guarantees whatsoever to other companies contemplating a similar idea, even when the facts might be virtually the same. Setting up an international ESOP without securing a new PLR could involve some degree of risk if a plan were ever scrutinized by the IRS and found wanting.[7]

2. Unfavorable tax treatment of stock grants by foreign governments

Beyond these potential gray areas, however, many if not most of the barriers to making an international ESOP work have nothing to do with U.S. law or policy *per se*. One of the issues raised most frequently in our interviews is that numerous foreign countries have provisions in their tax codes that would require employees to pay tax on grants of company stock prior to receiving a cash distribution at the time they retire or leave the company.

Stephen Smith of Amsted Industries explains that this can make ESOPs a substantially less attractive benefit for international workers, because "in the U.S., when you get your ESOP shares you don't have to pay tax on them right away. But, in certain other countries, if workers got shares they would have to pay tax on them immediately, and yet they wouldn't have any cash from them at that point—and that is a problem."

[7] Ron Gilbert points to the example of Daymon Worldwide, a global consulting firm specializing in retail branding, which included international workers in its ESOP in the early 2000's on the basis of legal opinion from private counsel. While Gilbert cautions firms against doing the same, and "would never advise that any large company with millions of dollars at stake put something like this in place on the basis of a legal opinion that might turn out to be right – and that might turn out to be wrong." He adds that Daymon did later procure a PLR officially blessing its international plan, and also notes that it is a long-standing practice for legal counsel to rely on a PLR where the facts in the situation are identical or very similar to what a company is contemplating.

Burns & McDonnell's Ketzner agrees, telling us

> *We want to make sure we have happy, tenured employees. Offering a benefit to an employee that could be taxable upon award or vesting, but that would not be paid out for many years would result in a mismatch that would make it really difficult to communicate the value of the benefit, and it could even be perceived as a negative.*

In some jurisdictions, "constructive receipt" —the technical term for the point in time when an individual officially receives income subject to taxation— may not occur immediately upon a grant of stock but may still be recognized as taking place prior to distribution, such as when shares vest or even when they are first allocated to an individual account. In all of these cases, there is likely to be a challenging liquidity problem for all but the most well-off employees. For companies with a presence in many different countries, researching the details of many different tax codes can be a significant undertaking, especially given that relevant provisions are likely to change over time. That was one of the reasons that Chemonics International initially included only a portion of the countries in which they work.

Ron Gilbert observes that some Chemonics employees in the included countries are very exuberant, some are very skeptical, and the majority are somewhat indifferent or inclined to wait and see. But there are exceptions. "When I introduced the ESOP in Haiti, the reaction was more enthusiastic than for many, if not most, of the U.S. ESOPs I've introduced."

David Binns points to the United Kingdom as one place where the tax treatment of deferred benefits is particularly unfavorable for ESOPs, noting that it seems "passing strange you can't make this work in the U.K., which does have its own fairly robust system for employee ownership." The difficulty here, however, is fundamentally not one that can be addressed by lawmakers or regulators in any individual country. Instead, it results from a "mismatch" between the tax regimes in different locales.

Case Study: Burns & McDonnell (https://www.burnsmcd.com/)

Burns & McDonnell is an engineering, construction, architecture and consulting firm headquartered in Kansas City, Missouri. Founded in 1898, the company was purchased by its workers in an ESOP transaction in 1986 and remains 100% employee-owned. Its global workforce of more than 14,000 consists of around 10,000 American employee-owners, 3,000 U.S.-based contingent workers and craft personnel, and 1,500 international personnel employed by foreign subsidiaries.

Up until the early 2000s, the company had only a limited number of workers outside of the U.S.; while it did perform services for foreign clients, almost all these projects were handled domestically. However, as international employees came to account for a more significant share of the overall workforce, management began to explore avenues for extending broad-based ownership to those abroad.

Alex Ketzner, Tax Director at Burns & McDonnell, recounts how leadership was "very cognizant of the fact that we have this ownership culture that is absolutely a key driver of our success as a company – so how do we do translate that across borders?" While the company did consider the possibility of including foreign employees in the ESOP, Ketzner says it ultimately determined that doing so might be "technically possible in very specific circumstances but was extremely difficult to do given array of challenges under foreign law."

As a result, the decision was made to introduce synthetic equity plans for Burns & McDonnell's international workers, while consulting with local legal and tax advisors to figure out how to best mimic the ESOP in different jurisdictions. The details vary from place to place, which can require tailored messaging. In one country, for instance, these grants of synthetic equity vest with a three-year "cliff," after which employees can fully cash them out and pay the associated tax liability. The different time horizons across countries require different messaging to align interests in a way that is similar to what is generated in the U.S. with the S Corp ESOP.

Despite the effort required to make it all work, Ketzner is enthusiastic about the fruits of the strong ownership culture that the ESOP and international plans help to support. "Once you see employee ownership in action it feels like an easy thing to commit to," he says, because "it's a great way to match employees' individual objectives with our business objectives. We know that our employees will see the fruits of their efforts – maybe not immediately, but if we're all successful they will be individually successful too."

3. Conflicts with foreign employment and labor laws

Implementing an international ESOP may also be challenging because of the need to comply with employment and labor laws in different jurisdictions that bear on the design of retirement or equity compensation plans. In a brief entitled "International Ownership Plans for U.S. ESOP Companies," Rosen and Schneider (2012) highlight a few main categories of provisions that can pose problems when attempting to export the U.S. ESOP model. In particular, they call attention to how some countries may:

- Have requirements that labor unions or local works councils sign off on plan structure;
- Maintain different rules from the U.S. about who must be included (e.g. part-time workers);
- Require that employees who have been terminated or who left the company be given an option to continue vesting after separation;
- Count stock awards as part of compensation for purposes of calculating social insurance contributions;
- Prohibit termination of the plan (or at least make doing so extremely difficult);
- Stipulate that participation in a plan confers other employment rights;
- Mandate that employees have rights to stock grants while not working (e.g. on account of medical or parental leave).

"ABC Inc." is an S corporation ESOP company that offers an alternative non-ESOP employee ownership plan to workers at one of its North American locations outside of the United States. Its chief financial officer describes how the plan is not contractually guaranteed but is instead positioned as a purely discretionary benefit, even though in practice the company has made contributions to it according to a formula that mirrors the one used for the U.S. ESOP. This approach was taken in order to avoid conflicts with local labor laws that might otherwise require the plan to be modified in ways that would diverge from the ESOP model.

4. Conflicts with foreign securities laws

Although it was raised less often by our interviewees, another possible challenge for taking an ESOP international is that grants of stock through such a plan could trigger requirements to comply with local securities laws, such as those involving disclosure or registration with financial regulatory authorities.

As Rosen and Schneider explain,

> *In most countries, plans are required to comply with registration and disclosure rules only if they actually offer stock for sale to employees, but in some countries, even the offer of an award realizable as shares may require some form of compliance with or exemption from these rules. A small number of countries do not allow employees to own shares in foreign companies.*

Ron Gilbert stresses that it is imperative for those contemplating global ESOPs to identify experts who are familiar with local requirements in the countries where they might want to extend their plans. “What happens if somebody gets shares allocated and you’re in violation of a securities law? It’s critical to be able to call on local counsel who are familiar with the details,” he says—advice that applies with equal force when it comes to the issues of tax and labor law discussed above.

5. Cultural or other cross-country differences

Lastly, yet another important – if less formal – set of obstacles to including international workers in ESOPs are those that stem from differences of culture or custom. Several of the executives we spoke with called attention to how divergent perspectives on the notion of ownership can be challenges for management in communicating about the benefits of an ESOP. Burns & McDonnell’s Ketzner says that “we’ve seen in certain jurisdictions that the concept of equity ownership in and of itself—and not even employee ownership *per se*—is very foreign. There are a lot of cultural hurdles you have to get over to really promote understanding and get buy-in from workers.”

This point was echoed by Barbara Wight of Taylor Guitars, which has one of its two major factories in northern Mexico and includes the workers there in its actual U.S. ESOP. Wight says that “we don’t talk about [the ESOP in Mexico] in terms of a stock ownership plan, because we’ve found that stock ownership is a tough concept there. So we just call it ‘the ESOP’ and position it as a retirement benefit only.”

To the extent that some of the Mexican workforce is more familiar with the idea of equity ownership though, she added that ESOPs may even elicit negative associations. This is due to the fact that “there’s a cultural assumption in Mexico that if you own stock you’re probably either involved in a cartel or you’re a corrupt politician, because there’s such a wealth divide in that society and their own laws don’t provide for any kind of mechanism like ours.”

> *“Extending ownership internationally seems to strengthen employee engagement and productivity; recruitment and retention; employee financial security; and corporate reputation and customer loyalty.”*

A related issue brought up by some is that dramatic differences in payscales across countries can also make it difficult to devise equitable ESOP allocation formulas, since offering stock grants to international workers that are commensurate in *absolute* terms to those awarded in the U.S. could imply large differences in *relative* compensation. Amsted’s Stephen Smith also argues that in countries with more generous state-sponsored pensions, such as in parts of Europe, it can be “difficult to add an ESOP benefit on top without distorting the entire wage scale. And you can’t really reduce your primary base pay, because then you’re going to lose workers who don’t value the retirement piece as much as they value current compensation.”

Case Study: Chemonics International (https://chemonics.com/)

Founded in 1975, **Chemonics International** is a leading sustainable development firm headquartered in Washington, D.C. It has administered an extensive portfolio of programs in more than 100 countries around the world on behalf of the U.S. Agency for International Development (USAID); Foreign, Commonwealth and Development Office (FCDO); and other organizations. Chemonics first established its ESOP in 2001 and became 100% employee-owned a decade later. In 2012, the plan was expanded to cover workers in 18 foreign countries, and as of 2024 this had grown to a total of 24.

Susanna Mudge, Chemonics' former President and Chief Executive Officer and current Chair of the Board, explains how "we always felt that our culture – with its emphasis on transparency, open communication, and teamwork – was very consistent with an ESOP even before we adopted one. It was a natural fit." Given Chemonics' extensive global footprint, she says there had been interest from the very beginning in extending the benefits of ownership to international workers. Although the leadership team could find no other example of a U.S. company that had successfully included non-U.S. workers in an ESOP, Ron Gilbert, who served on the Chemonics Board from 2013 to 2020, spearheaded the effort to secure a Private Letter Ruling (PLR) from the IRS that allowed the plan to be opened up internationally. (For additional background on the significance of the Chemonics PLR, see the section on "Barriers to International Worker Participation in U.S. ESOPs.")

Not all of the nations in which Chemonics has a presence are eligible to be covered by the ESOP, and certain categories of workers, such as those whose job is based in a country where they are neither a citizen nor permanent resident, are also excluded. William Keller, the company's former chief financial officer and current executive, describes how Chemonics does considerable ongoing research on all of the countries where it has staff – "from Afghanistan to Zimbabwe" – to review changes in local tax, labor, and securities laws and determine when and whether it may be feasible to extend the ESOP into new locales.

Keller insists that managing an international ESOP requires specialized expertise and a sustained commitment to getting the details right. "There is a lift to do it," he says, "especially when you're in 24 countries and you're talking about record-keeping for thousands of staff. There is a level of effort you have to be prepared for. This is not like having a simple 401(k): it gets complex quickly and having the right people is really critical." But he and Mudge both agree that, for companies willing to take on the challenge "with their eyes wide open," the benefits of international employee ownership can make it all worthwhile.

Alternative Routes to International Employee Ownership

Of the seven S ESOP companies we interviewed, only two, Chemonics and Taylor Guitars, include international workers directly in their U.S. ESOPs – something that, to our knowledge, has only ever been managed by one other company (Daymon Worldwide). While some said they had considered but ultimately decided against doing the same – at least for the foreseeable future – others have never viewed an international ESOP as a realistic option on account of the barriers discussed above.

Regardless, all indicated that they rely on at least one of the following alternative strategies for extending a form of ownership to at least some of their non-U.S. workers: (1) synthetic equity, i.e. phantom stock plans or stock appreciation rights; (2) cash profit-sharing; (3) foreign employee ownership arrangements; or (4) other types of defined contribution plans.

1. Synthetic equity: phantom stock plans and stock appreciation rights

The most common alternative to having non-U.S. workers participate in an ESOP is to instead offer *synthetic equity* in the form of either *phantom stock* or *stock appreciation rights (SARs)*. Although the details of how such plans are designed can vary widely, synthetic equity or phantom stock consists of a promise on the part of a company to make a cash payment at a future date in an amount that depends on its stock value at that time. It is "synthetic" in the sense that there is no right to receive actual shares of stock. Rosen and Schneider (2012) note that some may prefer to avoid the term "phantom" in describing these kinds of plans given the possible negative connotations.

> Ownership benefits are a psychological differentiator.

Like phantom stock, *SARs* are a promise to make future payments in cash. But, unlike phantom stock, SARS operate similarly to stock options in that the cash payment is based on the *incremental increase* in the value of the company's stock price between the date of the award and the date of exercise.[8] Rosen and Schneider explain how a company [that] wants to provide an employee with the same present dollar value for [a] SAR grant as a phantom stock grant… needs to issue two to four times the number of SARs than phantom shares because the SARs will have no value unless the share value increases…[9]

Among the companies we interviewed, synthetic equity-type approaches are the most common strategy for extending ownership internationally. Black & Veatch, which has a global workforce of over 12,000 in total and approximately 2,000 based outside of the U.S., offers a synthetic equity plan to most of its international workers. In the majority of countries where this plan is in effect, phantom stock is awarded with a "cliff vesting" provision, whereby employees do not vest for period of several years but then become completely vested and convert their synthetic shares into cash after that point.

Black & Veatch's Darin Olivarez explains how this structure was chosen for most of the countries where the company offers alternative ownership plans because individual income tax liability in those jurisdictions is triggered by *vesting* rather than by *cash-out*, so it is important for participants to be able to monetize their benefits at that time. In deciding on a duration for the cliff vesting period, the company tried to balance incentives for taking a longer view with the need for employees to feel that the benefit has a tangible value. "We want that long-term commitment to the organization," he tells us, "but it shouldn't take forever [to receive a payout]. If they *never* vest, what sort of benefit is that really for your employees?"

[8] Some of our interviewees used the terms "synthetic equity" and "stock appreciation rights" interchangeably, but for our purposes here we rely on the definitions employed by the Internal Revenue Service, which treats phantom stock and SARs as "synthetic equity."

[9] The authors go on to explain how the precise ratio needed to establish equivalence can be derived from an option pricing model that "incorporates several key elements, including the price at grant, volatility, risk-free rate of return, the term of the options, and (if any) dividends or equivalent interim payouts."

While SARs plans are not relied on very extensively by the companies we interviewed, there do seem to be reasons why these might be preferred to phantom stock in certain cases. Black & Veatch, for instance, uses SARs only in Canada, where they report that employees who receive equity compensation are typically taxed upon award but that grants of SARs are exempt from this provision.

One drawback of these approaches is that recipients of synthetic equity or SARs can miss out on benefiting from additional long-run appreciation in the company's stock value should it outperform alternative investments over durations longer than the vesting period. (And, again, SARs holders can miss out on *any* benefits if the stock price were to remain flat or even decline by the time of exercise.) Burns & McDonnell's Alex Ketzner points to a fundamental tradeoff when it comes to these kinds of alternative plans:

> *The good thing is that we're addressing the tax issue, but the bad thing is that it makes it more difficult to mimic the ESOP because you're not creating an exact match in terms of the outcome. It's the only way to really do it in the jurisdiction and make it work for our employees, but it's an example of the mismatch between how the ESOP works and how the regulations in a certain country require us to operate.*

Larry Goldberg, Partner at ESOP Law Group in San Francisco, explains that S ESOPs in particular have to be intentional about using synthetic equity in order to maintain compliance with Section 409(p) of the Internal Revenue Code, which requires that ownership of S ESOP companies be broadly shared with rank-and-file employees. The motivation for this provision is to prevent plans from being set up purely as tax shelters. According to Goldberg, "if an ESOP company that's an S corporation allows itself to be excessively diluted by various synthetic equity arrangements, it disqualifies the ESOP" under IRC Section 409(p). However, such plans are common, as broad-based issuances of synthetic equity can be completed within these limits.[10]

ABC Inc.'s CFO alluded to how this issue could pose problems for a company whose international employees account for a sizable proportion of its total headcount, and indicated that "if we were to be at a point where the foreign workforce was a larger percentage of the total than the U.S. workforce, I think it could be difficult and problematic to use a phantom program. The dilution of ownership could make synthetic equity difficult to manage."

[10] The IRS deems both phantom stock and SARs to be "synthetic equity" for purposes of applying these limitations. For further background on Section 409(p), see Dittmer (2012).

2. Cash profit-sharing

In some cases, ESOP companies may choose to tie the compensation of non-U.S. workers to the company's performance with the use of cash profit-sharing bonuses. ABC Inc.'s CFO reports that pairing profit-sharing with a meaningful role for workers in corporate decision-making can provide many if not all of the benefits of genuine equity ownership, and points to one of their company's North American operations as an illustrative example:

> *Being known as employee-owned has reputational benefits for firms.*

> *When I talk to employees about what ownership means, I talk about three different things: owners get the profits of the company; they get to say what happens; and they get the value of the company at some point in the future, like when they retire or sell it to somebody else. By not having equity ownership in that one country, they don't get the third—but they do get the first and the second, because we do have profit-sharing and they are a part of our ownership culture.*

Amsted Industries, which makes use of synthetic equity for managers at its non-U.S. locations, relies more heavily on profit-sharing for nonsupervisory employees. In Mexico, the company says that all of its hourly employees are mandated by law to receive a certain share of the company's profits, but that some also receive annual bonuses linked to corporate performance that are negotiated with local union representatives. Non-salaried employees in Australia, Brazil, Canada, and South Africa are eligible for payments tied either to the company's financials or results at a particular plant.

While profit-sharing can be an attractive strategy for various reasons, including that it provides workers with the liquidity to cover tax liabilities and does not raise any issues of securities law, it does suffer – to perhaps an even greater extent – from the same limitation as synthetic equity or SARs when it comes to whether employees are able to benefit from long-run appreciation in the value of a company. Moreover, as the example of Amsted makes clear, profit-sharing plans may also involve similar considerations as international ESOPs in the realm of compliance with local employment and labor laws, insofar as these forms of compensation may be subject to approval by local unions or other worker representatives.

Case Study: Schweitzer Engineering Laboratories (https://selinc.com/)

Based in Pullman, Washington, **Schweitzer Engineering Laboratories (SEL)** specializes in the design, manufacturing, and support of products that protect, monitor, and control electric power systems, including power generation and transmission networks. The company serves utilities and large industrial clients in a variety of different sectors and employs approximately 6500 people across two dozen countries.

Founded in 1982, SEL started its ESOP in 1994 and became 100% employee-owned in 2009. Prior to the turn of the millennium, the company worked with international clients but performed all of its work domestically; today, about 1500 of its employees are based outside of the U.S.

Chief Business and Financial Officer Joey Nestegard describes how the company's founder, Dr. Edmund O. Schweitzer III, originally created the ESOP because he was "looking for ways for employees to share in the success and the long-term performance of the company," and hoped that SEL could one day become completely employee-owned. But Nestegard insists that the culture of ownership is about much more than just the ESOP itself. In fact, ownership is one of the company's nine core values, and something he refers to as "just part of our DNA."

While SEL is committed to ensuring that its ownership culture "is the same everywhere in the world," only its U.S. employee-owners currently participate in the ESOP itself. Nestegard says that management has explored ways to mirror those benefits in other countries but has found this to be a challenge for a variety of reasons. He cites the complexities that would come with designing a program to comply with two dozen different tax regimes, as well as the fact that there is little discussion of international structures even at many ESOP conferences and meetings, so finding workable models to look to for inspiration can be difficult.

Currently, the company offers retirement benefits to the majority of its workers, regardless of location, based on whatever type of plan is customary in a particular country. Contributions are made at a level designed to be commensurate with those to the U.S. ESOP. While these benefits are broad-based and are not limited to specific categories of workers, they are also not directly linked to the performance of the company itself.

Regardless, Nestegard says that the company's effort to encourage all of its workers to think like owners is paying off. He recalls an employee based in Saudi Arabia being asked to describe what ownership meant to them, and how "their response was the same as what you would hear here in Pullman or anywhere else in the United States. We all want to make sure that we're re-earning our customers' business every single day, and we all feel that responsibility – no matter where you sit and no matter who you are."

3. Foreign employee ownership arrangements

While the structure of a U.S. ESOP is in many ways unique, a number of other countries do make use of alternative mechanisms to provide for employee ownership. In certain instances, companies may find that there are compelling reasons to avail themselves of these mechanisms where they are offered.

Dusty Friesz is Associate Vice President of Finance and Global Tax Leader at Black & Veatch, which currently extends an employee ownership benefit in the form of either phantom stock or stock appreciation rights to workers in about a dozen foreign countries. For one place in particular, however, Friesz describes how unique considerations have led the company to pursue a different path:

> *In one country where we currently operate there are regulations that offer certain benefits to companies who have local employees owning a stake in the local entity, such as the right to bid on certain projects. This government policy is meant to promote broader participation in the economy by local workers. And so we essentially established a "local ESOP" that owns a portion of that entity, and those local employees share in the successes of that entity specifically as opposed to those of the whole company. It's not an ideal approach but made the most sense for our business in this country.*

At the same time, other companies expressed a preference for avoiding such local arrangements given the importance that they attach to employee ownership benefits being as geographically uniform as possible. ABC Inc.'s CFO noted that their company has chosen not to make use of foreign employee ownership vehicles because it believes that all of its workers should share ownership on the same terms. Differences in corporate preferences seem to play an important role in determining how companies view the tradeoffs associated with foreign "ESOP equivalents."

4. Other types of defined contribution plans

Lastly, a fourth strategy employed by several of the companies we spoke with involves offering non-ESOP defined contribution plans in different countries based on whatever structure is customary in a particular locale, and making contributions at a level approximately commensurate with those made to the U.S. ESOP. While this approach can also minimize compliance issues by relying on structures that are already accepted in a given jurisdiction, a major drawback is that the returns on investments in these plans are not necessarily linked to the company's own performance, which can limit their ability to function as an incentive to "think like an owner."

Schweitzer Engineering Laboratories (SEL), which employs approximately 1,500 workers across roughly two dozen foreign countries, uses local "401(k) equivalents" to provide retirement benefits that approximate those offered to its U.S. employee-owners through the ESOP. However, Chief Business and Financial Officer Joey Nestegard acknowledges that SEL aspires to eventually find a way to extend ownership internationally that allows financial outcomes for international workers to be more explicitly connected to the company's overall success.

In fact, he thinks that the heterogeneity of benefits across countries makes it more difficult to cultivate a truly global culture of ownership since this effectively gives rise to a "two-tier" system:

> *We try to have a really egalitarian structure. We don't have assigned parking spots! We all share in the success, and when there are challenges we all jump in and help. But it feels weird that we have this really incredible benefit for U.S. folks, and we don't have something equivalent [for international workers]. I know that impacts how people feel. We want to be able to figure that out, because you end up with two cultures. It's not the same, and we don't love that. If we were able to do it, the success and the growth that we've seen in the U.S. would be shared across the world.*

Some companies rely on defined contribution plans of this sort only in a subset of the foreign countries in which they operate or as a supplement to other plans based on synthetic equity or the like. For example, Taylor Guitars, which includes its Mexican workers in its U.S. ESOP, has employees in Europe who do not participate in the ESOP but who instead receive phantom stock awards as well as comparable contributions to local pension plans. While Taylor was able to make an international ESOP work in Mexico, where about half of its overall workforce is based, CFO Barbara Wight says that it would have been too costly and administratively difficult to expand that to countries with a much smaller number of employees. In those places, the combination of synthetic equity and defined contribution pensions provides a roughly equivalent benefit.

Case Study: Taylor Guitars (https://www.taylorguitars.com/)

Taylor Guitars is an American guitar manufacturer founded in 1974 by Bob Taylor and Kurt Listug. Its headquarters and primary manufacturing facility are located in El Cajon, California; it also operates another factory in Tecate, Mexico just south of the U.S.-Mexican border. Approximately 500 workers are employed at each of these locations, which together account for the overwhelming majority of Taylor's workforce. The company has a small number of personnel based in Africa, Asia, Europe, and Latin America as well, most of whom serve in sales-related roles.

Up until three years ago, Taylor Guitars was owned by its two original founders and a third equity partner who gained a stake in the company in 2019. But on December 31, 2020, it underwent a transition to 100% employee ownership when it launched an ESOP in which all of its U.S. and Mexican workers are eligible to participate. Chief Financial Officer Barbara Wight believes that the company may be the first to ever establish a new ESOP that includes non-U.S. workers from Day One.

The decision to become employee-owned was taken after the founders became convinced that doing so would afford the greatest opportunity for preserving the company's distinctive culture in a future succession transition. The planning process took several years, and Wight explains how "we knew conceptually that we wanted everybody to participate and to participate in the same way." Taylor worked closely with ESOP Law Group's Larry Goldberg, who helped to set up a U.S.-based ESOP trust that could accommodate the workers in Mexico and who secured a determination letter from the IRS approving the plan.

While it was important to Taylor's leadership that the Mexican employees, who represent roughly half of the total workforce, participate in the actual ESOP, it proved infeasible to include those in any other foreign country. "In Europe we have two employees in this country and one employee in that country," says Wight, "and the number was just too small to justify the fees of setting that up." For the non-Mexican international workforce, Taylor again worked with Goldberg to create what it calls its Global Employee Stock Ownership Plan (GESOP), a phantom stock plan that uses the exact same allocation and contribution methodologies that are used for the ESOP trust.

Wight and Vice President of Human Resources Shaun Paluczak acknowledge that managing an ESOP with non-U.S. participants has come with unique administrative challenges, such as working with both Social Security numbers and Mexican tax ID's, or paying out distributions in a foreign currency. "The thing about ESOP's is that they're amazing, but the devil's in the details," Wight admits, "and as soon as you go international those details are just seriously compounded."

But both agree that the company had a strong ownership culture that predated the move to formal employee ownership, and that this has served as a powerful motivator when it comes to dealing with these sorts of issues. Wight says that the ESOP and GESOP have "reinforced even more this concept that we all win and lose together."

As the above discussion illustrates, any route to international employee ownership involves certain tradeoffs. Table 1 summarizes some of the main pros and cons of an international ESOP and the four other strategies explored in this section.

Some of our executives believe that a true ESOP represents the best solution. Black & Veatch's Olivarez for instance, says that "if it were an option, and everything being equal, if we could have everybody as an ESOP participant that would be so much simpler for all of us." He specifically cites the reduced administrative complexity that would come with managing a single plan as a reason to hope that, going forward, obstacles to implementing an international ESOP can be more easily surmounted.

On the other hand, some pointed out that options like synthetic equity do offer important advantages, such as a greater ability to customize the structure of benefits without the need to abide by the specific requirements of ERISA. Wight, for instance, reports that Taylor Guitars is happy with its current setup and would not necessarily see a need to bring its non-Mexican international workers into its ESOP – even if doing so were to become less costly: "The nice thing about our [phantom stock plan] as an international tool is that we have a lot of flexibility with it. There's no overriding law that says you have to do it the same way everywhere."

Finally, it is crucial to note that while different companies may use different financial mechanisms to allow international workers to share in their success, every one of the executives we met with stressed that building an ownership culture also requires pairing those mechanisms with other concerted steps to foster a sense of solidarity and shared mission on the part of employees, and to educate workers about their benefits and what it means to think like an owner.

SEL, for example, hosts a weekly "Friday Lunch" that is broadcast from its Pullman, Washington headquarters. This is a companywide catered business meeting where employees around the globe gather together at their respective locations to watch a program presenting briefings on projects, regular financial updates and other company news. One Friday each year is also dedicated to an announcement of the company's stock price, and Joey Nestegard describes why this tradition is important for helping workers to adopt the mindset of owners:

> *What does the change in share price mean to folks? It's always a little bit challenging to communicate that, but the more we talk with everyone the more they can look at that and say, 'it's a sign that my company is doing well that these outside people have appraised it at a higher value than they did before.' That really gives a sense of pride in ownership.*

> *"Many workers are now thinking a bit more about the overall company, and about how the decisions that they make every day can have an impact."*

SEL also uses companywide philanthropic giving programs as a way of offering employees a say in how corporate resources are allocated. Its "School Donation Program" gives workers an opportunity to contribute company funds toward support of STEM education at a school of their choosing. Senior Media Manager Kate Wilhite acknowledges that "it takes extra work and flexibility to ensure compliance with each country's regulations related to donations" but that this effort is ultimately "similar to how we work with our international offices to set up retirement benefits equivalent to our ESOP."

Put simply, the "soft" aspects of building a global ownership culture may involve some of the same challenges as the "hard" issue of designing ownership benefits tailored to the unique contexts in different countries. Nevertheless, there appears to be widespread agreement among those engaged in this work that both are vitally important.

Table 1: Pros and Cons of International ESOPs and Alternative Structures

Structure	Pros	Cons
International ESOP (U.S. ESOP with non-U.S. participants)	All employees participate in one structure which may provide for equal terms or certain flexibility for crafting international participation; the "all one ESOP" concept may help to build/reinforce egalitarian corporate culture For federal contractors, contributions are generally allowable/reimbursable, subject to applicable rules and regulations No concerns about dilution in ownership for companies with a large proportion of workers based outside of the U.S.	Lack of statutory/regulatory clarity about the permissibility of having non-U.S. workers participating; an IRS PLR is advisable Possible limitations on deferred taxation of stock grants by foreign governments Potential for conflicts with foreign labor/securities laws Other issues stemming from cultural or cross-country differences (e.g., lack of familiarity with equity ownership) Could be costly to administer for those with a presence in multiple countries, given need to consult with local counsel about compliance issues and monitor changes in tax/labor/securities laws over time

Structure	Pros	Cons
Synthetic equity (phantom stock plans or stock appreciation rights)`	Effective way to deal with local taxation of deferred benefits, since plan can be designed to allow cash-out/exercise at time when taxable income is recognized Most closely replicates benefits of an ESOP insofar as value of synthetic shares "mirrors" that of the company's stock	If designed to be cashed out a certain date, may not necessarily provide the same long-term incentives as stock awards through an ESOP If structured as stock appreciation rights, may not closely replicate benefits of a true ESOP Can complicate corporate accounting/plan administration, since synthetic equity is a liability that affects stock value, which affects ESOP contributions for U.S. workers, which affects future rounds of synthetic equity grants, etc. Excessive issuance of synthetic equity could be considered dilutive by the IRS and raise compliance problems
Cash profit-sharing	Can allow for tying worker compensation to overall company performance regardless of location Minimal tax issues, since workers receive cash that can be used to cover liabilities Does not involve grants of equity, so unlikely to raise securities law issues	Workers do not benefit from long-run appreciation in share value in the same manner as equity shareholders May still encounter issues with foreign employment and labor laws, since local unions or works councils may need to be consulted about plan design

Structure	Pros	Cons
Foreign employee ownership arrangements	May minimize compliance issues with regard to local tax, labor, and securities laws May unlock eligibility for local incentive programs, e.g. tax credits, preferential bidding rights regarding government contracts, etc.	Compensation may not necessarily be tied to performance of the company as a whole if local requirements are for grants to be based on performance of entity in that country Grants could potentially differ (in both absolute and relative terms) from those received by workers elsewhere, so may foster sense that not everyone owns “the same thing”
Other types of defined contribution plans	May minimize compliance issues with regard to local tax, labor, and securities laws	Returns not necessarily related to performance of the company itself, i.e. if company’s stock outperforms alternative investments over long periods of time, participants will miss out on excess capital gains

Case Study: **"ABC Inc."**

Headquartered in the Northeast, **"ABC Inc."** is a producer of industrial equipment with locations across the U.S. and North America. Motivated by a strong philosophical commitment to seeking fairer ways of doing business, its founding family introduced an ESOP over two decades ago as part of a planned succession; today, ABC is 100% employee-owned.

The company first expanded internationally shortly after adopting its ESOP, and a few years later launched a phantom stock program in an effort to replicate the plan's benefits for the non-U.S. workforce. Grants through this program are based on the company's current stock price in U.S. dollars, but payouts to workers once the awards vest are made in local currency.

In one of the foreign countries where it now operates, ABC has not extended synthetic equity because it is still in the process of paying out the previous ownership of an entity that it acquired several years ago. The company's chief financial officer emphasizes, however, that there are multiple dimensions to ownership, and that these employees nevertheless receive cash profit-sharing payments. Moreover, all workers, whether based in the U.S. or abroad, are afforded extensive input into every aspect of corporate decision-making. In other words, even those who are not able to individually benefit from long-term appreciation in the company's value are still actively included in the firm's ownership culture.

The CFO does feel that it might be preferable to have everyone covered by a single ownership plan, since this would not only be administratively simpler but would also more effectively embody the idea that every employee-owner owns a piece of "the same thing." It is for that reason that they say ABC has no plans to avail itself of foreign employee ownership models, since "we want our employee-owners to all share in the ultimate parent company, just as we wouldn't want an ESOP only for the employees in a single state. We're all in this together."

Conclusion

Research on the impacts of ESOPs suggests that companies and employee-owners are most likely to benefit from the adoption of shared ownership arrangements when these are accompanied by a supportive "ownership culture," or an environment in which workers see themselves as true partners in a business and as having a real voice in how important decisions are made in the workplace. While ESOP companies with international employees may face unique challenges in building a culture of ownership that extends across borders, our interviews with executives from more than a half dozen S corporation ESOP companies with a worldwide presence indicate that doing so can be well worth the effort for all involved. As awareness grows around these innovative strategies, and more and more employee-owned companies lean into cultivating an employee ownership culture that transcends borders, a growing number of workers worldwide will have an opportunity to meaningfully share in company success.

> *"At a time when many consumers feel strongly about corporate social responsibility, being known as an employee-owned firm can have reputational benefits."*

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- *Access more research resources about employee ownership in the Curriculum Library for Employee Ownership at https://cleo.rutgers.edu/.*

Appendix: IRS Private Letter Ruling on International ESOP

In its request for an IRS Private Letter Ruling (PLR) regarding the design of its international ESOP, Chemonics International sought determinations on three points that were crucial for implementation:

1. **Meaning of "qualified employer securities"**

   The Internal Revenue Code stipulates that ESOPs can only allocate "qualified employer securities" to participants' accounts. In Chemonics' case, however, its international workers, or "local national staff employees" (LNSEs), are typically employed by foreign limited liability companies (LLCs) or other non-U.S. foreign entities, rather than by the parent company itself. As such, Chemonics petitioned the IRS to determine that its stock counted as "qualified securities" with respect to these workers.

2. **Meaning of "compensation" for purposes of calculating contributions**

   By law, the maximum amount that a company may allocate to the account of an ESOP participant is based on his or her compensation. However, the compensation of Chemonics' LNSE's is not necessarily taxable income from the perspective of the U.S. federal government if their services are performed abroad and their income is not sourced from the United States. Chemonics therefore asked the IRS to find that the wages and salaries paid to these workers, even if not U.S. taxable income, could be used to calculate their ESOP contributions. Otherwise, the allowable contribution amount might be zero, rendering the plan infeasible.

3. **Tax-deductibility of ESOP contributions for international workers**

   Finally, and related to the first point, there was a concern that the contributions to the ESOP on behalf of international participants might not be tax-deductible for Chemonics, since companies are typically prohibited from making retirement contributions on behalf of other companies (such as foreign LLC's). Tax deductibility is important because even though Chemonics is a 100% ESOP owned S corporation, it would be subject to excise taxes if it made non-deductible contributions to the ESOP. The company therefore requested a ruling that the LNSEs could be considered Chemonics employees for purposes of calculating tax deductions.

As discussed in the section of the report on "Barriers to International Worker Participation in U.S. ESOPs," the IRS ultimately ruled in favor of Chemonics on each of these points.