Employee-owned startups in the digital era

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Introduction and background

Employee-owned businesses (EOB) are organizations where the employees own and manage the company. As other enterprises they need to be economically successful (Kaswan, 2014) but they are alternatives to more conventional organizational forms. EOBs are, like other types of cooperatives, value driven, member owned, and democratically controlled organizations. They seek to fulfill economic, social, and cultural needs of the employees (Billiet et al., 2021) while at the same time fulfill the needs of their customers. The organizational form ensures employee centrality, and the employees are expected to participate in decision-making processes. The degree of involvement depends on the size of the organization, the smaller the more direct involvement (Billiet et al., 2021). The strength of EOBs is according to Lampel et al. (2010) "a happier workforce, accountable management, a closer alignment of risk and reward, a fairer distribution of profit" which all in all helps to generate a culture of responsibility and trust in the workplace - and beyond. Ownership with increased responsibility and solidarity are seen as reasons why EOBs are economically sound and more resilient to crisis than other types of organizations, they e.g. lower the salary to keep the company alive (Billiet et al., 2021; Lampel, J. et al., 2010).

Like other businesses, technology allows for cooperatives to rely on virtual forms of collaboration (Cheney et al., 2014) and digitalization can support democratic processes in the organizations (Pärli, 2022). However, to our knowledge this is not further explored and explained in the extant literature. We argue that there is a shift to be acknowledged; while the democratic form of cooperatives is well established, re-emerging digital hybrid types present us with changed ways of working in the EOB. Our study-in-progress investigates the current situation of employee-owned startups with a special focus on governance and the role of digital tools supporting governance. We report from a sample of eight employee-owned startups. Our research question is: How is governance enacted in employee-owned startups in the digital era.

We contribute with an explorative study that provides insight into different governance structures in the Danish landscape, and a discussion of the twofold nature of technology acting as both enabler and restrictor when practicing cooperative governance.

Employee-owned businesses and governance

Democracy lies at the heart of the EOBs and builds on the idea that individuals are equal and should be governed by democratic structures (Pärli, 2022). What is understood as democracy (Kaswan, 2014) and how it is exercised varies. The organizations are driven by

a whole-life perspective, shared values, self-ownership, self-control, and secure employment. Often diversity regarding sexuality, ethnicity and gender is of importance (Wren, 2020). The flat organizational structure means that there are no managers, or that everyone is a manager (Wren, 2020). Consequently, the employees play an active role in governing the company and are expected to be active in negotiations and the formation of policies and work disciplines (Edenfield, 2017). The cooperatives develop these practices along the way (Kaswan, 2014). The expected participation results in frequent use of open meetings and online forums. Democratic voting or consensus decision-making allow employees to decide what to discuss and to express their opinions (Wren, 2020). Equal pay and paying a wage that enables people to thrive is seen as more important than paying a market-based wage (ibid). However, collective ownership and equality are sometimes contested with regards to pay. Not all EOBs operate with equal pay but there is a smaller ratio between the lowest and the highest paid employee in these organizations compared to conventional companies (Kaswan, 2014). What is more important is that the social division of labor is direct, open, and transparent (Kaswan, 2014). Here the use of temporary employees is an ethical and unsolved dilemma, they are needed as a temporary resource but they are not provided with an acceptable level of job security (Wren, 2020).

The need to manage daily tasks while not having anyone asserting authority over others is a challenge for EOBs. Meeting fora and assemblies for making decisions are common structures in practicing workplace democracy. Layered decision-making with roles and committees (Billiet et al., 2021) that represents some on behalf of others are structures to manage and divide work within cooperatives (Billiet et al., 2021, Wren, 2020). Rotating such roles is a practice that aims to overcome unequal distribution of information and power (Kaswan, 2014).

In line with these fundamental priorities, emergent technologies have expanded the possibilities for "more direct, interactive and democratic forms" of communication and governance (Rothschild, 2009). In response to the call for further research investigating how cooperative businesses react to developing or implementing new technologies, e.g., (Camargo Benavides & Ehrenhard, 2021), we unpack the structures and practices as these are enacted by employee cooperative startups.

Method

This paper is based on eight semi-structured, qualitative interviews (Brinkman & Kvale, 2015) with 14 employee-owners in eight employee-owned start-ups within knowledge work (*Consult 1-3, Consult IT, Journalism*) art restoration (*Art Restore*), craftmanship (*Craftmen*), and bike delivery (*Delivery*). The interviews lasted between 50-120 minutes and were audio recorded and transcribed verbatim. All interviews were conducted in Danish. The interviews are analyzed using thematic analysis (Ezzy, Douglas, 2002) that provides an overall structure without overly constraining the analysis in answering our open-ended research questions. For this workshop paper we focus on two themes: governance structure and the use of digital tools. The cooperative start-up scene in Denmark is limited and we selected the eight companies based on snowballing samples.

We started out with the most renowned EOB and along the way we were given more names that provided us with new contacts. The eight companies vary in terms of sector, size, and organizational maturity.

Findings

Opposing traditional business values: The employee-owned startups we investigated are all working towards changing the world and changing the ways of working as well as the services delivered. All interviewed are aware of the need for earnings, but the way they perform business is different from conventional businesses. The start-up *Delivery* opposes the working conditions of digital labor platforms, and they provide delivery as a sustainable and individualized service. The *Craftsmen* oppose hierarchical, male stereotyped and inflexible work conditions both internally and in their provision of craft, and craft workshops for minority groups. The knowledge-based cooperatives oppose precarious working by enabling freelancers to unite, to get colleagues, and ensure job security while they provide their services in niches often with a critical approach to the existing societal structures and understandings. With employee ownership they seek influence over the work, as well as a more caring and supportive work environment catering for the life situation of everyone. Some work with equal pay. All the participating cooperatives emphasize the right to flexible work hours that allow to pursue a desired life; this includes reduced work hours or flexibility that caters for different sleeping patterns or parental needs.

Enacting governance: All start-ups are governed by committees and shifting roles in combination with a meeting structure with daily or weekly meetings to coordinate and take the ongoing decisions. This in combination with online communication for updates and coordination. Additionally, there are monthly, quarterly, bi-yearly, or yearly meetings where strategy and strategic decisions are discussed and decided upon. Half of all the cooperatives goes on a trip yearly to discuss their dreams and the future for the cooperative. While some work with job titles others restrains from this, instead they have functions or roles. The committees and roles cover different areas e.g., daily management. The area of wellbeing is a priority in six of the eight start-ups and has its own committee. The roles are covered either due to skills and time, as observed in *Consult2*, but more often due to willingness and with room for learning as in, e.g., *Delivery* and *Art Restore*. Three start-ups are explicit about that paring a leading role with a secondary lead is a way to strengthen democracy as it provides transparency, flexibility, collaboration, and trust. This set up is primarily used in managerial work but also in project work.

The organizations perceive meetings as forums for enacting democracy, however rules for participation differ resulting in participation becoming optional or mandatory. In *Consult1* active participation in meetings is requested and rounds of voicing are used to make sure everybody is heard. In *Delivery* and *Consult3* participation is optional; the ones who like to be involved should, but it is not mandatory. Meetings are highly structured and timed to make sure issues are discussed and decided upon. In general, the employee-owned start-ups investigated avoid voting. Instead, discussions and giving time to agree are

appreciated, as stated by *Consult1*, *Consult2*, *Art Restore* and *Craftsmen*. For *Journalism* decisions are made by letting the best argument win or when a majority is in favor.

Digital tools for governance: Collaboration is undertaken using digital tools that allow for both virtual and physical collaboration. Some of the employee-owned start-ups are loosely bound by virtual collaboration, others are closely knitted together with a complex hybrid communication structure. Most work in hybrid formats to allow for maximum flexibility and to cater for the needs of each employee-owner. There are strong values connected to the use of digital tools. An example is *Consult IT* that has a wish to use only open-source tools. Others have a free choice of which digital tools to use. Each start-up strives to develop a structure that works for them, an example is *Consult 2*; even though they are only five owners, they have created a strict structure to be able to follow and find communication, and to separate work and private communication. They have specific channels on different platforms for client communication, inspiration, check in, physical meeting agendas, updates on interesting issues, individual communication, and closed channels for specific issues. Similarly, *Art Restore* has divided information and discussions between Messenger and Slack. Their channel choice is decided based on how fast an answer needs to be given. It is complicated for the start-ups to find digital tools that allow for separation between private and company life and no tool can entirely support the need for cooperative governance, flexibility, division of work and transparency. Thus, the adopted technologies both enable and restrict cooperative governance.

Discussion and conclusion

This study has explored how governance is enacted in employee-owned startups in the digital era. To this end, we drew on a corpus of data including interviews with 14 employee-owners in eight employee-owned start-ups based in Denmark. Our thematic analysis resulted in three themes: business values, governance practices, and the role of digital tools.

Most of our findings are in line with the literature. We find the startups as ambassadors of democratic and responsible businesses emphasizing job security and wellbeing, considering the whole life situation of the employees, as argued by, e.g., Wren (2020) and Lampel et. (2020). The startups develop structures of governance along the way, as stated by Kaswan (2024). Similar to findings by, e.g., Wren (2020) and Kaswan (2024), they use committees, shifting roles for governance, and meetings for decision making with various demands to participation. However, we found insights not previously addressed in the literature: Six cooperatives have committees on wellbeing looking into how to navigate workload and avoid stress. The cooperative values are seen as aligned with open-source technologies. This creates a value conflict in some of the startups when they do not find the right open-source tools. All start-ups strive to find the right technologies supporting transparency and knowledge sharing for communication and coordination. The mix and match of technologies changes due to changes in needs, experiences, and inspirations. In practice, such an endeavor turns out to be both liberating and constraining with interesting implications about the role of technology in this unique organizational form.

Carmago Barnavides and Ehrenhard (2011) argue that there is lack of knowledge of how new technologies are used in these organizations. This explorative study contributes with insights into different governance structures in the Danish landscape, and a discussion of the twofold nature of technology, acting as both enabler and restrictor when practicing cooperative governance. We argue that there is a need for best practices as well as technologies to better support the governance needs in EOBs, an analytical theme that we will explore further in the future.

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