

# Chapter 9

## Comparing Employee Ownership Models in Iran and Western Economies: Bridging Perspectives

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### ABSTRACT

*From agency theory perspective, employee ownership is a decisive factor in reducing agency problem and it can improve firms' performance. In recent years many countries especially western countries implement certain employees' ownership plans, for example, Employee Stock Ownership Plan (ESOP) in the U.S. Iran also introduced Preferred shares plan. According to this plan, the companies' shares are able to be sold in the form of Preferred shares to the employees. This chapter investigated the differences of employees' ownership plans in Iran and western countries including USA, France, Spain and the UK. The findings indicated that there are many differences between employees' ownership plans of Iran and western countries; such as the plans of the western countries which were reviewed are in both private and state-owned companies; however, the plan of Iran is only for state-owned companies.*

### 1. INTRODUCTION

The defective performance of state-owned enterprises in the 1970s led to the popularity of privatization in the early 1980s. Afterward, privatization was supported by most developed countries. For example, United Kingdom began to privatize state-

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owned enterprises. Furthermore, due to the economic challenges and inefficiencies faced by public sectors, emerging countries have paid special attention to privatization as an important economic reform program. One prominent characteristic of privatization across numerous nations is the implementation of various kinds of modalities of employee share ownership plans. As an emerging country, Iran has introduced an employee ownership plan. However, challenges associated with privatization in Iran—such as the continued control of many privatized companies by the government and quasi-government institutions, resulting in widespread inefficiency—have limited the plan to publicly owned companies. Unlike in Western countries, where such plans are implemented in both public and private sectors, Iran's approach reflects its unique context. This distinct situation offers a fresh perspective on the issue.

Employee ownership is crucial to strategic human capital by the lens of agency theory. Agency theory focuses on incentive and monitoring costs resulting from a misalignment of purposes between principals and agents. In the context of employee ownership, employees often have purposes, which are not in accordance with those of the principals. Owing to the discretion that employees have in their work, employees' (agents') behaviors are self-serving at times and are not essential in contract with business owners' (principals') purposes as agreed upon in their arrangements (Kim & Patel, 2017). In other words, employee ownership is posited to synchronize the objectives of employees with those of other shareholders (Kong et al. 2024). In fact, there are two interconnected mechanisms through which employee ownership facilitates this synchronization, resulting in enhancements in corporate performance. First, employee ownership mitigates agency problems between shareholders and employees by enabling the latter to derive financial advantages from the collective prosperity of the organization. This incentivizes employees to perceive themselves as sharing common interests with the shareholders (Adwan et al, 2022). Second, a significant advantage associated with employee ownership is its favorable influence on employee retention (Chen et al. 2020). Therefore, it has positive effects on corporate social performance; since one of the dimensions of corporate social performance is job security.

Moreover, Employee ownership is increasingly common in industrialized countries. There has been an important improvement in employee ownership plans across countries including North America, the United Kingdom, Japan, and the European Union. However, the prevalence of employee ownership varies in a variety of countries. For instance, in Italy, France, and Spain, employee ownership is widespread, but in Scandinavian countries, fewer companies have active employee ownership plans (Kim & Patel, 2017). With regard to employee control and participation, various institutional settings vary in acceptable levels of employee control and participation. For instance, in Scandinavia and in countries with a Germanic

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