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Employee Ownership and Craft Beer: Drinking the Company Kool-Aid?

John P. Bonin

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WESLEYAN UNIVERSITY

Department of Economics
Public Affairs Center
238 Church Street
Middletown, CT 06459-007

Tel: (860) 685-2340
Fax: (860) 685-2301
http://www.wesleyan.edu/econ

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Drinking the Company Kool-Aid? *

John P. Bonin

Department of Economics, Wesleyan University, Middletown CT 06459 USA

Email: jbonin@wesleyan.edu

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John P. Bonin: jbonin@wesleyan.edu

Abstract

In the United States, the fragmentation of the beer industry began in the 1980s with early craft beer start-ups operating as microbusiness consisting mainly of an owner or two and a few employees. Employee ownership using the legislation on Employee Stock Ownership Plans (ESOPs) appeared initially in craft beer with the first such plan instituted in 1999 at New Belgium Brewing Company, Inc. in Fort Collins, Colorado. Adoption of such plans started in earnest in the craft beer industry in 2012; the subsequent period witnessed many start-ups of microbrasseries in Quebec, Canada that have similar characteristics to the original U.S. craft beer microbusinesses. This paper begins by considering a few salient contributions to the economic literature on employee ownership that focus on workers' agency and voice. Institutional information about ESOP legislation in the U.S. and relevant aspects of Employee Ownership Trusts (EOTs), which have a long history in the U.K., are compared according to these criteria. The recent flexible Canadian legislation on EOTs is outlined; the possibilities it allows are compared to ESOPs with respect to workers' agency and voice. In the second section, the evolution of the craft beer industry in the U.S. following the enactment of two important legislative changes at the end of the 1970s is summarized. The third section discusses the role played by ESOPs in craft beer by first considering New Belgium Brewing; its ESOPs was dissolved upon a merger with a foreign-owned beer company. Detailed information on ESOPs in ten companies in the U.S. craft beer industry follows; two breweries of different size and ownership, namely Harpoon Brewery (minority employee-owned) and Switchback Brewing Company (fully employee-owned), are treated as mini case studies. In the fourth section, the craft beer industry in Quebec consisting of over 250 microbrasseries that accounted for 12% of total beer sales in 2020 is characterized. New federal legislation in Canada introduces flexible designs for EOTs that may be adopted to support employee ownership in these microbrasseries in the future. The conclusion opines about the necessary components for meaningful employee agency and voice in U.S. craft beer ESOPs and conjectures about the future potential for such worker engagement in Quebec's craft beer industry based on the new Canadian EOT legislation.

I. Employee Ownership Conceptually and Legally: Workers' Agency and Voice

In their comprehensive survey of the economics literature on worker ownership and control, Dow and Putterman (2000) separate property rights in a firm into the right to cash flows, which we call agency, and the right to control the workplace, which we call voice. These authors consider three main reasons explaining why capital suppliers usually retain such property rights and hire workers. Specifically, they consider the conflict between individual incentives and group outcomes, capital financing constraints on worker ownership, and the importance for individual workers to diversify earnings sources for risk-sharing considerations. Employee Stock Ownership Plans (ESOPs) are a particular type of worker ownership in the U.S. that was championed by Louis Kelso and Senator Russell Long. Kelso's objective was to support employee ownership with a leveraged ESOP in which workers as a collective borrowed to buy shares from the company owners with the loan paid back over time from company earnings, i.e., the self-liquidating financing of a transfer of ownership.

With Senator Long's advocacy, ESOPs were incorporated into a 1974 law, the Employee Retirement Income Security Act (ERISA), to be administered and overseen by the U.S. Department of Labor and U.S. tax authorities. As such, ESOPs are defined contribution retirement plans as Dow (2003) explains; they are characterized by Mackin (2024) as "ownership as a retirement benefit" because capital appreciation rights are shared among current employees. Workers do not purchase shares with current wages; rather shares are provided to the ESOP trust either directly by the firm ownership (non-leveraged) or financed through borrowing by the ESOP fund (leveraged) as Kelso advocated or some combination of these. In the case of leveraging, shares are released to the fund gradually as the loan is repaid from the firm's earnings to the lending party according to a fixed payment schedule. In either case, the ERISA legislation requires that shares be allocated in a broad-based manner (non-discriminatory) across all employees with individual amounts usually determined by an employee's salary earnings. In this section, we consider both U.S. ESOPs and alternative Employee Ownership Trusts (EOTs), that originated in the U.K. but are currently incorporated into new omnibus legislation in Canada, from the perspectives of workers' agency and voice.

With respect to cash-flow rights, ESOPs provide deferred compensation because an employee can cash out shares only when retiring or upon leaving the firm in the original ERISA legislation. For workers in publicly traded companies, the ESOP cash-out is straightforward as the trust buys back the exiting employee's shares at the prevailing market price. For workers in closely held firms, including companies that are 100% employee-owned, the cash-out is more complicated. The ESOP trust buys back the exiting worker's shares at a price determined by an outside auditor based on an evaluation of the current value of the company. Hence, workers in companies with ESOPs are subject to the diversification of risk problem identified above because both their current earnings and their deferred compensation is based on the performance of the company in which they are employed.

ESOP legislation evolved to recognize this problem of single-company earnings and investment risk (the diversification issue). The Tax Reform Act of 1987 introduced amendments to ESOP regulations mandating that plan participants be offered investment diversification options other than company stock when they arrive at certain age thresholds. Subject to the age of the ESOP and the tenure of the employee, a worker may diversify up to 25% of the ESOP account at age 55 and 50% of the account by age 61. To satisfy this diversification requirement, the company must offer at least three alternative investments (under the ESOP or in a separate

401(k) plan) or distribute cash or company shares directly to the participants.[1] Aware of the diversification issue, many firms with ESOPs voluntarily offer current employees additional supplemental retirement income plans, primarily 401(k) plans, to allow them to spread investment risk. Blasi, Freeman and Kruse (2014) report survey work indicating the many firms with ESOPs also employ some variation of profit sharing to provide short-term incentives to motivate their employees' effort. These authors find that firms combining both long-term deferred compensation and short-term current earnings generate the strongest incentive impact on employees measured by improved overall firm performance. In addition, they conclude that ESOPs are not offered as a substitute for wages or other forms of compensation thus dismissing an argument that ESOPs provide only compensating income differences to workers. Hence, we characterize ESOPs as an additional benefit of deferred personalized access to the company's cash flow for an individual worker and, thus, conclude that they do bestow agency on individual workers.

With respect to voice, the argument is more complicated. First, it depends on whether the firm is publicly traded or closely held. In publicly traded firms, the ESOP trustee votes the shares, which at best is pass-through voice. In closely held firms, employees vote their shareholdings in the trust directly but only on a limited number of issues, the most important of which is the acquisition of all (or substantially all) of the assets of the company, i.e., a stock sale is not a mandatory pass-through event. Companies may pass through voting rights on other issues voluntarily, although few do so.[2] Second, effective employee voice depends on

[1] Mackin (2024) provides details based on information from the National Council for Employee Ownership (NCEO) website.

[2] I am grateful to Corey Rosen for correcting this point and other parts of this section on legal issues from an earlier draft. See Rosen and Rodrick (2020) for more details on legal matters.

complementary arrangements that produce a cooperative company culture. From their survey, Blasi et al. (2014) find that workers in closely held firms consider their capability for meaningful voice to depend on overall company culture not on the ESOP voting rights arrangement per se. Hence, we conclude that ESOPs provide no meaningful role for individual employee voice by themselves but require complementary aspects of a supportive corporate culture to give voice to the workers.

According to the National Council for Employee Ownership (NCEO) website[3], in 2020 (the most recent year for which data are available), 225 new ESOPs were created, covering 41,154 participants. In total, 6,467 ESOPs were then in existence in the U.S., holding total assets of over $1.6 trillion with the number of unique companies having an ESOP estimated to be 6,232 (a single company may sponsor multiple ESOPs). In 2020, ESOPs covered 13.9 million participants, of whom over 10.1 million were active participants. Active participants are defined to be workers who are currently employed in the company and participating in its ESOP. ESOPs enjoy special tax treatment in that they are treated as a contribution by the company to an employee benefits program. As such, U.S. tax law allows a deduction from corporate tax liability of up to 25% of the ESOP trust's covered payroll for payment of the interest and principal of the loan in a leveraged ESOP or for any company contribution of shares to the ESOP in a non-leveraged ESOP. Moreover, any dividends used to repay the loan or to purchase additional shares in the ESOP are also untaxed. Hence, such deferred compensation to employees arranged through an ESOP avoids the double taxation on corporate dividends in U.S. tax law. In addition, closely held companies may be set up as S-corporations that are not subject to corporate income

[3] See: https://www.nceo.org

tax. Normally, in S-corporations, all earnings are passed through to shareholders who are then taxed on the returns as personal income. Until 1998, Federal tax law did not allow non-taxable entities to own stock in an S-corporation because they paid no taxes. In 1997, Congress changed the law to allow these entities, including ESOP trusts, to own shares if they paid taxes at the highest personal income tax rate. In the next year, Congress passed a subsequent law exempting ESOP trusts from paying any tax. Hence, a 50% ESOP owned S-corporation would avoid tax on 50% of its income and a 100% ESOP owned S-corporation would pay no tax at all. Owners of companies that are C-corporations or convert to C status may also defer tax on capital gains from selling to an ESOP by reinvesting in stocks and bonds of U.S. operating companies and paying no tax until these reinvestments are sold. Many of these companies will then convert to S status and become nontaxable. These various tax benefits have made ESOPs attractive vehicles for business transitions, which has been the primary application of the ESOP legislation.

Using the ESOP structure to sell a business to employees is initiated by the existing ownership group. The seller, and the company going forward, enjoy favorable tax treatment as discussed above but the seller typically helps to finance the trust initially. Conventional banks will lend funds to start the process but they limit their role to the most secure, collateralized layer of financing. Because workers and managers lack equity, sellers typically end up providing support in the form of "seller notes" to the ESOP trust to begin the transaction. Owners of closely held businesses typically use the leveraged ESOP structure to set up the trust while retaining an equity share themselves in the restructured company. Hence, ESOPs are beneficial for owners who wish to transition from full ownership because they allow the sale of only a portion of the company, whereas outside buyers almost always want to buy the entire company.[4]

[4] The above presentation of legal issues relies heavily on material from Corey Rosen.

Due to the tax benefits that ESOPs provide and the personal satisfaction that owners often get by assuring that the company they have built remains independent and employee-owned, the leveraged ESOP model is an attractive option for owners in the U.S. craft beer industry, which is the focus of this paper.

To what extent the U.S. legislation promotes long-term employee ownership of the company and provides incentives to workers to improve productivity and profitability is a more complex issue. ESOP legislation has not followed evolving U.S. trust law. As Michael (2017) explains, although many states have eliminated the rule against trust perpetuities, an "exclusive benefit" rule imposed by federal law requires ESOPs to prioritize current employees' retirement income over continued employee ownership of the business effectively prohibiting a perpetual ESOP trust. ESOP law treats the trust purely as a retirement vehicle for current employees and not as an arrangement for long-term employee ownership of the company. In addition, if an ailing business seeks bankruptcy protection, the ESOP trust may be in danger of being liquidated without any compensation being paid to the employees. An example of this peril is Modern Times Beer founded in 2012 in San Diego California. A minority ESOP was set up in 2017 by the founder who remained as the CEO and majority shareholder of the company until resigning in 2021 under some duress when the firm was on the point of foreclosure. Liquidation proceedings were begun and, after protracted negotiations, Maui Brewing of Kihea Hawaii took over the facilities in San Diego at the end of 2022 intending to keep the brand and expand its own retail presence on the U.S. mainland. As part of the receivership sale, the Modern Times

ESOP was dissolved. All the proceeds from the sale of the firm went to the senior lender with no remaining funds available to distribute to any of the owners, including the ESOP trust.[5]

In contrast to ESOPs, Employee Ownership Trusts (EOTs) in the U.K. do not assign company shares to individual employees in the firm.[6] Rather, stock is transferred to a perpetual employee trust that is administered on behalf of all present and future employees. As in ESOPs, acquisition financing may be borrowed to create the trust with the company incurring obligations to pay back any such loans over time from earnings. In such EOT arrangements, no repurchasing of shares is required by the trust when an employee leaves the firm. EOTs are governed by their Articles of Incorporation or with by-laws both of which perpetuate an inclusive version of employee ownership over generations of workers and discourage sales of shares to outsiders. The John Lewis Partnership in the U.K., a long standing EOT, has no obligation to repurchase the shares of individual workers when they leave the firm but rather views its employees as "naked in; naked out." Workers earn a percentage of company profits through dividend payouts on the shares held in trust while working at the firm but exit without being able to realize any capital gains from growth in the firm's value, like arrangements in in a law partnership. Such an EOT relies on dividends paid out on shares or complementary profit-sharing arrangements to distribute earnings to current employees. Hence, we consider the U.K. EOT arrangement to

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[5] Private communication from Jennifer Briggs (email 6/14/2023), who was the Modern Times CEO during the liquidation proceedings keeping it in business until it was sold to Maui Brewing. She became the Chief Experience Officer for Craft 'Ohana, the new brand name for the restructured company.

[6] See Mackin (2024) and Michael (2017), on which this discussion of EOTs is based, for more details.

provide what are management-determined cash flow rights but only to current employees and, as such, bestow only limited agency on individual workers.

Regarding voice, John Lewis has a constitution that accords voting rights to all employees, empowering them to elect the firm's governing body.[7] John Lewis trustees are required to preserve the business and its employee-owned structure for the benefit of current and future employees. This benefit is understood to include both financial (cash flow rights) and nonfinancial (voice) elements and is best expressed in the culture of the firm, that is, the quality of working relationships among employee owners. In the United States, a similar EOT arrangement may give voting rights to employees to provide direction to the trustees. This power is defined as narrowly or widely as the arrangement dictates. As a group, current employees may be granted control over some high-level decisions, such as electing board directors and voting on shareholder issues, while the EOT's trustees continue to maintain discretion over larger critical matters, such as the sale of the company or any of its substantial assets. Hence, EOTs in the U.S. may provide some limited voice to workers as a group but important company decisions are often left to the discretion of the EOT's trustees.

Recent legislation in Canada, i.e., Bill C-59 *Fall Economic Statement Implementation Act, 2023*, includes proposals to use EOTs to purchase and hold shares in businesses. With more than 75% of small business owners planning to retire over the next decade, the Canadian government intends to create an attractive alternative for succession of departing owners when other types are not feasible or desirable. Different from a U.K. EOT (naked in; naked out), beneficiaries of the trust in the Canadian legislation may be both current workers and former

[7] See https://www.iohnlewispartnership.co.uk/about/our-constitution.html

employees who worked for the firm when the EOT was instituted. An employee's benefit can depend on any, or some combination, of the following: length of service, current pay, or hours worked. Hence, an employee's property right to earnings is considered non-discriminatory as it is in an ESOP. Designers of Canadian EOTs have a choice to allocate benefits as distributions in the form of dividends on shares held in the trust to current employees and former employees and/or grants of shares to be held in internal capital accounts in the trust.[8] As such, the Canadian EOT confers property rights over company earnings to workers both as current income in the form of dividends (or profit shares) and as individual equity compensation that they would retain upon leaving the firm. Hence, Canadian EOTs have significant flexibility to confer agency on both current employees and employees who leave the firm after the trust has been established.

The Canadian legislation requires current owners to cede majority control over the business to the trust once it is established; it must hold at least 51% of the shares in the business while the current owner(s) may hold no more than 49% of the company stock. The employees, through the EOT, have representation on both the Trustee Board and the Company Board. Each must consist of at least one-third employee membership ensuring that decisions are taken with input from the employee beneficiaries of the trust. In addition, if any trustee is appointed rather than elected by current employee beneficiaries, at least 60% of the Trustee Board must deal at arm's length with any of the owners who were involved in setting up the EOT, meaning owners

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[8] In an email dated January 11,2024, Jon Shell points out that the legislation added a feature that limits the compensation to an employee who is in twice the highest tax bracket (currently about $C450K) to flatten the benefits. Jon opines that this restriction is similar to the U.S. ESOP approach but doesn't have a counterpart in a U.K. EOT.

can occupy no more than 40% of the seats on the Trustee and Company Board.[9] Business decisions are subject to the governance and compliance requirements of the EOT and the province of the trustees. Although these two entities make strategic and oversight decisions, current employees of the firm decide directly on whether the business can be sold to a third party (or whether it can sell a large division of the company). At least 50% of all current employees need to approve any such a transaction so that the company cannot be sold without the majority concurrence of its workers. In summary, the legislation requires both the voice of employees and the voice(s) of the former owner(s) who set up the trust to be considered in current company decision-making but the current employees, as a group, have control over any change in the ownership structure of the company.

Regarding the incentive for a business owner to set up an EOT, a significant tax advantage is introduced in the federal budget proceedings voted on by Parliament in May 2024. This proposal exempts owners who are setting up EOTs from paying capital gains tax on the first $10C million realized from transferring shares to the trust. If passed, the legislation would apply retroactively to January 1, 2024, and be available to be used in three tax years (2024, 2025, and 2026).[10] This tax incentive appears to be a pilot program intended to incentivize owners to take advantage immediately of the new EOT legislation. However, if it is successful in promoting the adoption of EOTs, the exemption is likely to continue in subsequent budgetary legislation.[11]

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[9] Details about the Trustee Board of the EOT in this paragraph are taken from the document at https://www.ey.com/en_ca/tax/tax-alerts/2023/tax-alert-2023-no-47. Thanks to Jon Shell for bringing this to my attention.

[10] In his email, Jon Shell estimates that this exemption provides significant incentives for owners to set up an EOT because the resulting tax benefits would be approximately $2.5C million on the maximum amount of $10C million transferred at the current capital gains tax rate of 25%.

[11] The already existing Bill C-59 contains other tax advantages, namely an extension of time limits on the taxation of capital gains reserve funds from five to ten years and an extension of

Furthermore, EOTs are allowed to hold assets in perpetuity rather than being subject to the 21-year limit on other trusts in Canada. Although the Canadian legislation follows the U.K. principle of setting up a perpetual trust for both current and future workers, it affords significantly more cash flow rights to workers by allowing current and previous employees to receive dividends as well as hold individual share accounts in the fund. Hence, a Canadian EOT is more flexible in design than its British counterpart because it may be structured as a hybrid between the British EOT and a U.S. ESOP.

With respect to cash flow rights, ESOPs and Canadian EOTs differ in the treatment of deferred compensation. In an ESOP, a worker is entitled to receive compensation for the capital value of the individual ownership share held in the trust upon leaving the firm. Thus, the worker is a true owner of a piece of the company while employed and, in principle, the retirement benefit provides full compensation for the expected value of future cash flows. The Canadian legislation is flexible enough to allow the design of an EOT that grants individual ownership shares to a worker, as in an ESOP, but it does not require the trust to buy back the shares when the worker leaves employment. However, the EOT is required to maintain 51% ownership of the firm striking a balance between direct employee share ownership and trust ownership. That said, most Canadian EOTs are likely to include pay-outs to employees for the shares in their internal accounts when they leave the firm and for compensation to former employees (if desired) through allocations based on a specified formula. For example, if a company is sold, a Canadian EOT may design a distribution formula for dividing the proceeds of the sale that includes allocations to employees who have recently left the company. Hence, the Canadian legislation is

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the tax status of the shareholder loan repayment period from one to fifteen years for loans used to purchase shares by the EOT.

flexible enough to allow an EOT structure in which each employee becomes a normal shareholder in the company with full ownership rights.

With respect to voice, Canadian EOTs grant workers elected representation on the Trustee and Company Boards, i.e., communal voice. Without complementary institutional arrangements, ESOPs do not provide any direct worker voice. Basically, the Canadian EOT legislation provides workers with communal voice whereas corporate culture plays the determining role in whether workers have meaningful voice in ESOPs. Considering the combination of cash flow rights and voice, workers in ESOPs have legislated ownership rights to equity in the firm whereas workers in Canadian EOTs may or may not have direct ownership claims although they will have a stronger voice in company decision-making. In addition, ESOPs may have minority employee ownership whereas Canadian EOTs require majority group ownership by the Employee Trust. In what follows, we explore the role played by ESOPs in the rapidly burgeoning craft beer industry in the U.S.; based on our findings, we consider the potential for, and likelihood of, EOTs based on the new Canadian legislation being adopted in the nascent, but developing artisan craft beer industry in Quebec.

II. Craft Beer in the U.S.: A Tale of Two (Be)Eras

The U.S. beer industry has undergone considerable upheaval over the last 50 years. According to Elzinga (2011), two distinct periods are identifiable: the first from 1950 to the 1980s is one of consolidation with the second, starting in 1980s, and continuing to today being one of fragmentation. During the period of consolidation, many familiar beer brands became extinct, e.g., Narragansett; the Herfindahl-Hirschman index (HHI) for the top five beer distributors increased from 19% in 1947 to 83.9% in 1984.[12] Concentration at the top of the industry continued to increase into the 2000s. Following two mergers, a duopoly formed between Anheuser-Busch InBev (hereafter: ABI) and MillerCoors. In 2003, these two had a combined market share of 78.7% of which ABI held the dominant share at 49.6%. Nonetheless, the latter period of fragmentation is characterized by the arrival of craft beer on the scene.

In 1979, only two craft beer companies existed, namely Anchor Steam and New Albion Brewing, both having no measurable market share. In contrast, the forty-two producing macrobreweries had a market share of 97.4% at that time with the remaining 2.6% made up of imported beer.[13] In 1965, Fritz Maytag brought a dying Anchor Brewing Company, established in 1896 in San Francisco, back to life and, in so doing, became recognized as the father of craft beer in the U.S. In 1976, Jack McAuliffe brought his home-brewing skills to small-scale production in Sonoma County to form New Albion Brewing Company although New Albion exited the market six years later. In 1984, Jim Koch discovered his great-great-grandfather's recipe for lager in the attic of his family's house. multiple tries to make the product marketable, Koch launched Samuel Adams Boston Lager on April 15, 1985 selling it in bars and restaurants in Boston. However, Koch used the production facilities of the existing Pittsburgh Brewing Company (brewer of Iron City) to produce craft beer to his specifications buying excess capacity at marginal cost so that Boston Beer Company was basically a virtual craft beer firm. By 1986, forty-six small brewers were operational resulting in a first-time measurable combined market share for craft beer of 0.1%. At that time, thirty-three macrobreweries remained with a market share of 95.2% while imports made up the remaining 4.7% of the U.S. market. By 2012, over

[12] Data are taken from Elzinga (2011) pps. 219 &220.
[13] Data are taken from Elzinga et al. (2015), Table 1, p. 245.

two thousand craft beer companies existed with a combined market share of 6.4%. Along with imported beer having an increased market share of 13.3%, specialty beers reduced the market share of the remaining nineteen macrobreweries to 80.3% in that year.

The U.S. craft beer industry consists of three types of establishments: brewpubs, microbrasseries and regional firms.[14] In 2010, 1,756 craft beer companies were operating of which brewpubs, defined as places at which most or all sales was done on the premises, were dominant with more than 1,000 locations. Microbrasseries, defined as firms producing no more than 15,000 barrels per year and mostly for off-premise consumption, accounted for 602 operations. The remaining 81 craft beer companies were regional firms, defined as producing more than 15,000 barrels per year often in multiple plants and with sales in multiple states. The market share of these all craft beer firms was 4.8% in 2010. Both the number and the market share of craft beer firms increased during the subsequent recessionary period in sharp contrast to the nineteen existing macrobreweries that lost 1.9% combined market share. However, we do not consider craft beer to be an inferior good despite it appearing to satisfy the economist's definition of one during this two-year period.

In the U.S., the emergence of the craft beer industry owes much to supportive federal legislation.[15] In 1997, changes in the excise tax rate on beer at the national level provided a sizable tax break to smaller brewers. On October 14, 1978, President Jimmy Carter signed a bill making previously forbidden home brewing legal nationally although states were given the authority to limit its production. For many brew meisters, learning by doing through experimentation at home was the normal educational route. These legal changes spawned the

[14] Information is taken from Elzinga 2011.
[15] Information in this paragraph is taken from Elzinga et al. (2015).

birth of brewpubs on the West Coast with establishments licensed in Washington in 1982 and in California and Oregon in 1983. Craft beer moved to the East Coast in the mid-1980s at first in New York and Massachusetts. By 1990, thirty states had legalized brewpubs.[16] In 2001, taxes accounted for around 5% of the cost of sales for the average small craft brewer but nearly 30% for large macrobreweries.

In the early development period of the industry, the absence of a market for small-scale capital equipment forced the small brewers to cobble together the necessary equipment themselves.[17] At the time, capital equipment was transacted on the market for large-scale production only; the Boston Beer Company integrated vertically its brewing process only after Samuel Adams had become the best-selling craft beer in the U.S. As the craft beer industry grew, a market for small-scale capital equipment developed. By 2010, a craft brewer could purchase turnkey canning equipment that would run from 50 to 250 cans per minute. In 2013, total industry production for craft beer was 13.2 million barrels, of which Boston Brewing Company produced almost 2.3 million. For comparison, MillerCoors produced 20 million barrels of Coors beer at its flagstone facility in Golden, Colorado.

Employee ownership using the legislation on ESOPs appeared initially in the craft beer industry in 1999 with the first such plan adopted at New Belgium Brewing Company, Inc. in Fort Collins, Colorado. New Belgium grew its ESOP so that it became fully employee-owned in 2012.[18] ESOPs were instituted in two other craft beer companies in that same year at Alaskan

[16] See Elzinga et al. (2015), Table 2, p. 259.
[17] Jack McAuliffe, the founder of New Albion, was an engineer with experience in welding and electricity.
[18] We develop the saga of employee ownership at New Belgium in the next section; its ESOP was wound up in 2020 when Lion Little (subsidiary of Kirin) purchased the company.

Brewing in Juneau and Deschutes Brewery in Bend Oregon. By this time, the industry consisted of 2,347 firms with a market share of almost 6.5%. Adoption of ESOPs by craft beer producers accelerated after 2014 when Massachusetts Bay Brewing Company a.k.a. Harpoon Brewery located in Boston, Massachusetts adopted its plan. The growth of the craft beer industry in the U.S. and the introduction of employee ownership in several companies, some with substantial market share,[19] is a connected tale in the second (be)era.

III. The U.S. Craft Beer Industry: Growing Employee Ownership

Seven of the top fifty craft beer sellers in the U.S. in 2020 have ESOPs. Based on our survey of the economics literature, we focus on the extent to which workers have both agency and voice in craft beer companies that have instituted ESOPs. We begin this section with a consideration of the ESOP experience at New Belgium, maker of Fat Tire beer, from its adoption to its dissolution upon the sale of the company to a Kirin subsidiary. We continue to discuss ten craft beer companies having current ongoing ESOP plans for which we have detailed data. From these, we chose two companies having different institutional characteristics and differing ESOP structures as mini case studies. Our goal is to identify characteristics from both the ESOP structure and the company culture that promote meaningful agency and voice for workers.

Best known in the literature for ESOP adoption among craft beer companies is New Belgium Brewing founded in 1991. New Belgium set up a minority ESOP in 1999; it became a 100% employee-owned company through its ESOP in 2012. At the time of its sale to Lion Little World Beverages (a subsidiary of the Japanese beverage giant Kirin) in 2020, New Belgium was

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[19] The aforementioned Deschutes Brewery ranked 19th among all (including microbreweries) for U.S. sales in 2020 (see Appendix: Table 1)

the fourth-largest craft beer company in the U.S. and the largest employee-owned one. From the time it adopted its minority ESOP, New Belgium more than doubled employment to over 750 worker-owners and expanded by opening a new brewery in Asheville, North Carolina. During the existence of its ESOP, New Belgium paid out more than $190 million to former employees and participants. At the time of the sale, current employees received on average almost $200,000 for cashing out their individual shares.[20] As the first craft brewer to institute an ESOP, New Belgium's success was responsible for at least fifteen other craft brewers adopting ESOPs.

Table 1 lists ten U.S. craft beer companies that have ongoing ESOPs; the data are taken from the NCEO database for ESOP companies, which is based on 2020 U.S. tax records. The table is not inclusive; it excludes companies that previously had ESOPs but are no longer organized in this manner, e.g., New Belgium. In addition, two craft beer companies, namely Yellowhammer Brewing and Rhinegeist Brewing, are omitted from the table because they do not appear in the NCEO database although they may have adopted ESOPs.[21] Modern Times Beer, also omitted, was operating an ESOP in 2020 but the fund was dissolved in subsequent liquidation proceedings with no employees receiving any compensation for their ESOP stakes. Based on the total volume of beer sales in 2020 in data from the U.S. Brewers Association,

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[20] According to data from the NCEO database, total distributions from the ESOP as part of the sale to Kirin amounted to $116,964,665; at that time, there were 598 active participants for an average distribution of $195,593.

[21] These companies were identified as having ESOPs in a private communication from Nancy Wiefek, Research Director at NCEO. As its website reports, Rhinegeist Brewing was founded in 2013 in Cincinnati Ohio and instituted a "Geist Share Program" in 2017 to promote employee ownership. However, it makes no mention of an ESOP program; https//rhinegeist.com. The website for Yellowhammer Brewing makes no mention of an ESOP plan nor of any other employee ownership program; https//www.yellowhammerbrewery.com.

Rhinegeist ranked 25 (34) and Modern Times 40 (50) among the fifty largest craft beer producers (top fifty beer distributors overall in parentheses) in the U.S. By contrast, Yellowhammer does not appear among even the top fifty craft beer producers in the U.S.

Among craft beer companies having ESOPs, Deschutes Brewery in Bend Oregon is the highest ranked by sales volume at 10th with a national ranking of 19th in total U.S. beer sales (see Table 1).[22] Founded in 1993, Deschutes Brewery instituted its ESOP in 2012 as a leveraged minority fund. The fund has total security holdings of $8,080,868 and an average share for its active employees of $31,940. With the highest number of active employee/participants of any company in the table at 253, Deschutes is the largest U.S. craft beer company having an ESOP. At the top of the table by virtue of having the highest average active employee share in its ESOP fund is New Glarus Brewing Company in New Glarus Wisconsin, founded in 1993 and ranked 12th among craft beer companies and 21st nationally by sales volume. The New Glarus ESOP, instituted in 2015, has total current security holdings of $18,570,158 in its fund and an average value of security holdings for its 101 active employees of $183,863.[23] Both New Glarus and Deschutes are S-corporations.

Massachusetts Bay Brewing Company (a.k.a. Harpoon Brewery), founded in 1986, has a leveraged minority ESOP that was instituted in 2014 but it is not an S-corporation. The ESOP at Harpoon, one of our mini case studies, has total security holdings in its fund of $15,663,972 and average security holdings for its 134 active employees of $116, 895. Harpoon ranked 15th among all craft beer companies by sales volume and 24th nationally in beer sales. In third place with

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[22] All such data reported in the table are for 2020.

[23] Whether or not the New Glarus ESOP is a minority trust fund is not specified in the NCEO dataset.

total security holdings in its ESOP fund of $8,215,008 and an average value of security holdings for its 131 active employees of $62,710 is Odell Brewing Company of Fort Collins Colorado, which was founded in 1989 and instituted its ESOP in 2015. Odell ranked 17th among all craft beer companies by sales volume and 26th nationally in beer sales. The Switchback Beerworks Inc., founded in 2002 and headquartered in Burlington Vermont, is a 100% employee-owned S-corporation with a leveraged ESOP that was instituted in 2016. Switchback's ESOP fund contains total security holdings of $1,425,501 and an average value of security holdings for its thirty active employees of $47,517. A small company, Switchback is not ranked in the top fifty craft beer companies in the U.S. by sales volume. However, because it is a 100% employee-owned company through its ESOP, Switchback is the other business that we choose to examine as a mini case study.

The final five companies in the table include two leveraged ESOPs in S-corporations, namely Alaskan Brewing LLC in Juneau Alaska founded in 1986, and Twister Creek (a.k.a. Denali Brewing) in Talkeetna Arkansas founded in 2009. Alaskan's ESOP is the longest operating of any company in the table having been instituted at the beginning of 2012. The trust is a minority shareholder with securities equal to $2,052,421 and an average value of security holdings for its seventy-three active employees of $28,115. By sales, Alaskan Brewing ranks 26th among craft beer companies and 35th nationally. Twister's ESOP was instituted in 2017; its fund is considerably smaller than that in Alaskan with total securities equal to only $302,211 and average security holdings for its forty-nine active employees of $7,555. A relatively small business, Twister did not rank in the top fifty of craft beer sales in the U.S. Two companies, Indian Peaks (a.k.a. Left-Hand Brewing) in Longmont Colorado and Voodoo Brewing Company in Meadville Pennsylvania have non-leveraged ESOPs and are not S-corporations. Left-Hand

Brewing, founded in 1993, instituted its ESOP in 2015 with only a minority shareholding stake; nonetheless the fund has a respectful holding of securities totaling $610,042 and an average value of security holdings for its fifty-eight active employees of $10,518. Left-Hand ranks 47th among craft beer firms by sales volume. Voodoo, founded in 2005, instituted its ESOP in 2016; the fund is much smaller than that in Left-Hand holding only $13,128 in securities with an average value of security holdings for its twenty-eight active employees of $469. A small company, Voodoo did not rank in the top fifty of craft beer sales. Finally, The Great Lakes Brewing Company in Cleveland Ohio, founded in 1988, is an S-corporation with a non-leveraged ESOP that is the youngest fund of any of those in the table having been instituted only in 2018. Consequently, the ESOP trust fund is small with securities equal to only $395,373 and an average value of security holdings for its 144 active employees of only $2,746. Nonetheless, as the third oldest company in the table, Great Lakes is relatively large ranking 22nd among craft beer companies and 31st in total U.S. beer sales; it has the second highest number of active employee/participants in its ESOP of any company in the table.

Our selection of the two mini case studies is based on identifying companies with distinctly different characteristics to investigate the complementarity between corporate culture and ESOP shareholding in granting voice to the workers. Harpoon Brewery (a.k.a. Massachusetts Bay Brewing Inc.) has a leveraged ESOP with a minority shareholding stake and is not an S-corporation. Harpoon's trust is relatively large with 134 active participants (third most); it ranks 15th (third highest) among craft beer companies in sales volume (24th in total U.S. beer sales). By contrast, Switchback's ESOP is relatively small with only thirty active participants (second last); Switchback does not rank in the top fifty of craft beer companies in sales volume. Switchback is an S-corporation and has a leveraged ESOP but with 100% employee ownership. Switchback is considerably younger than Harpoon; it was founded in 2002 (third youngest) and its fully employee-owned ESOP was instituted in 2016 (third youngest). By contrast, Harpoon is the oldest craft beer company in the table having been founded in 1986; its minority ESOP was instituted in 2014 (third oldest). Despite its young age, Switchback's ESOP is fourth–ranked by security holdings per active participant whereas Harpoon's somewhat older ESOP is the second highest by the same measure. Hence, we have chosen two companies with different characteristics and differing ESOP structures to investigate how employee ownership through an ESOP leads to agency and voice for workers. Our goal is to relate differences between these two companies regarding size, ESOP structure and age to relevant characteristics promoting employee agency and voice through ownership complemented by corporate culture.

Harpoon Brewery[24]

Dan Kenary, Rich Doyle, and George Ligeti, three college buddies who shared a love for beer but were not able to find what they were looking for on tap at their local pubs in the Boston area, established Harpoon Brewery. Upon receiving a Massachusetts brewing permit in 1986, they purchased brewing equipment and searched for someone who could actually brew the beer. They found Russ Heissner, a graduate of the UC Davis School of Fermentation Sciences; the team formulated an initial recipe for Harpoon Ale in the summer of 1986. Friends and family provided a lucky (and, at times, unlucky) quality control team sampling months of test batches of beer. Finally, in June of 1987, the "original" Harpoon Ale was brewed and delivered to its first customers, the Sevens Ale House on Charles Street in Boston and Doyle's Café in the Jamaica Plain neighborhood. Harpoon Brewery expanded its offerings rapidly over the next two decades

[24] Information in this section is taken from the Harpoon Brewery website at: https://www.harpoonbrewery.com

by introducing a winter beer and an Octoberfest beer as well as inaugurating the first IPA craft beer produced on the East Coast. In 2000, having reached full brewing capacity in its Boston facility, Harpoon purchased the former Catamount Brewery in Windsor Vermont, another pioneering New England craft brewer, and began producing its offerings at that location.

In July 2014, Harpoon became a partially employee-owned company by instituting a minority-holding leveraged ESOP with 48% of the company stock. Rather than joining a legion of craft brewers who were selling out at the time to industrial brewers or to private equity companies, the founders decided to double-down on remaining independent and start sharing ownership with their employees. In each subsequent year, shares were transferred to individual ESOP accounts as the original acquisition loan taken to finance the establishment of the fund was repaid. According to the Harpoon website, a culture in which the employees feel (in)vested in the success of the company has been created. This document claims that the employees want to see their products succeed and want their customers to have positive experiences when they try their beer and enjoy a pretzel in the Harpoon Beer Hall. As employee owners, they are reported to regularly discuss the realities and challenges of the industry as well as their own performances. According to the website: "these conversations have not always been positive, but we have made a great deal of progress in reinvigorating our brands, especially Harpoon IPA. As we head towards the fifth anniversary of employee ownership, we are celebrating a lot of special moments in the rich history of our pioneering craft brewery. Each person that walks the halls of Mass. Bay has something to do with the beer that you order at your favorite bar or pick up at your local package store. You can be sure that every can you crack is made with a great attention to detail. We do own the place, after all."[25]

As the table indicates, Harpoon has 134 active employee-owners and a considerable average individual share in its ESOP trust of $116,895. The above summary, based on material taken from the company's website, creates the impression that Harpoon's ESOP engenders a sense of agency among its employees leading them to take pride in their work. Hence, we conjecture that the substantial individual ownership shares held in Harpoon's ESOP provide an incentive to motivate workers to achieve high performance levels. To what extent the workers consider their ESOP ownership shares to give them any appreciable voice in company policy may be another matter. Since employees as a group have only minority ownership through the ESOP, the majority stake retained by the original ownership leaves substantial control over company policy vested with the owners/founders. Subsequent fieldwork is required to probe the connection between issues of agency and voice with management and employees of Harpoon.

Switchback Beerworks Inc.[26]

Bill Cherry and Jeff Neiblum collaborated to establish Switchback Beerworks in Burlington Vermont by combining Bill's expertise in brewing beer and his scientific background with Jeff's experience as an entrepreneur. The vision for the initial product, Switchback Ale, came from Bill's objective to maximize complexity and flavor to deliver beer the way a brewmaster experiences it. To accomplish this, beer is left unfiltered and is carbonated 100%

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[25] Employee Ownership – Harpoon at: https://www.harpoonbrewery.com

[26] Information in this section is taken from the Switchback website at: https://www.switchbackvt.com.

naturally in a special process using yeast. The result is a beer brewed to a flavor "idea" not based on any existing formula or by following specific guidelines. The first pint of Switchback Ale was served at Ake's Place in Burlington, VT on October 22, 2002; all Switchback beers are brewed in the same manner as this first batch.

In 2003, Switchback hired its first employee, Chris Dooley; the company eventually found itself running 24-hour shifts to meet the demand for its beer. As it continued to grow, Switchback added state-of-the arts German equipment including a 1964-built copper brew house from Brauerei Schmucker in Beerfelden Germany, a bottling line, and a canning line to ensure the high quality and flavor that Switchback fans had come to expect and love. In 2014, the owners added a tap room primarily to highlight experimental brews and their limited release batches but also to hold beer-themed events and educational classes. The Switchback lineup grew to contain over twenty beers including year-round offerings, rotating specials, and limited releases. Currently, Switchback's beer selection is available throughout New England and in New York on tap, in bottles and in cans. Founder, brewmaster and President Bill Cherry turned full ownership of the brewery over to the employees in 2017 when he set up a leveraged ESOP to hold 100% of the company shares. Cherry wanted to ensure that the brewery would remain locally owned and operated; Switchback became the first Vermont brewery to operate under an ESOP. In addition to Cherry, the brewery is operated by a management team with an off-site board of directors. This structure is designed to promote a collaborative management style that promotes a company culture motivating employee/owners to be fully invested in their work and its product.

As the table indicates, Switchback has only thirty active employee-owners and an average individual share in its ESOP fund of $47,517 ranking it fourth by this measure of the ten craft beer companies listed. This is no small feat as the total securities in Switchback's ESOP are less than the median for the other companies and its ESOP is the second youngest by initiation age of the ten listed in the table. Unlike Harpoon, Switchback is an S-corporation in which dividends to its employee/shareholders are not subject to corporate income tax so that business earnings are taxed only once as personal income of the employee/recipient. Coupling these observations with the summary information based on material taken from the company's website, we conclude that Switchback's ESOP engenders both a sense of agency and some limited voice among its employees. As a 100% employee-owned company with an on-site management team but an off-site board of directors, we conjecture that the ESOP at Switchback provides strong incentives to motivate workers to achieve high performance levels and provides a sufficiently cooperative company culture to give employees ample room and motivation to have a somewhat limited voice in company policy. Subsequent fieldwork is required to validate the hypothesis that Switchback employees have a feeling of agency through ownership and a sense of voice through participating in relevant-to-them company decisions.

We conjecture that both ESOP shareholdings and corporate culture are important components of fostering agency and voice in the workforce of craft beer companies. How important are other structural aspects in promoting commitment? From the economics literature on cooperatives, we expect larger companies to have more difficulty in making workers feel that their voices are being heard (collective action problem). How does a minority ESOP stake compare with a fully worker-owned ESOP company in promoting agency and voice for workers? The literature suggests that a non-worker (outside) controlling stakeholder fosters less agency for workers than a fully (100%) employee-owned company would. Does the size of an individual stake in the ESOP impact a worker's motivation and identification with the company? The literature indicates that the size of a worker's profit share influences the incentive to provide effort and commitment to the company. Will this result hold similarly for the size of the deferred equity compensation coming from an individual's stake in the ESOP fund? Due to differences in company size, the percentage of company shares held in the ESOP trust, and the size of an average individual worker's share in the ESOP fund, we expect further fieldwork comparing agency and voice for workers in Harpoon and Switchback will shed light on these questions.

IV. The Craft Beer Industry in Quebec: a Boutique Artisan Production

Like the saga of the emergence of craft beer producers in the U.S., microbrasseries arrived in the mid-1980s in Quebec; the first microbrewery began producing beer in 1986. As in the U.S., the first producers benefitted from legislative changes with many remaining as small boutique operations with roots in their local agricultural communities. The beer and alcohol industry in Canada is under the jurisdiction of each province; in Quebec, SAQ (*Societe Alcohol du Quebec*) regulates the production and distribution of beer and other alcohol products.[27] Quebec has a flourishing microbrasserie industry with more than 250 retail outlets in 140 townships and cities. Beer sales at microbrasseries accounted for 12% of total beer sales in Quebec in 2020.[28] Of the total number of microbrasseries, 177 belong to the business organization l'AMBQ (*Association des Microbrasseries du Quebec*).

[27] Jon Shell explained in private correspondence that beer entering from other Canadian provinces would be subject to the same regulations and sales restrictions that beer imported from outside Canada into Quebec faces.

[28] Information in this and the following section about microbrasseries is taken from: *Carte des Microbrasseries du Quebec 2020*.

The industry is booming as more than 130 microbrasseries employing more than 5,000 people were established from 2015 to 2020. Although all microbrasseries serve craft beer, not all produce it. The first microbrewery in Quebec opened in 1986; it is adjacent to a pub The Golden Lion (*Lion d'Or*) that had itself opened in 1973 in Lennoxville. Starting in the 1980s, SAQ began to provide licenses to small businesses for production and distribution of craft beers. One such craft beer producer, Microbrasserie Moulin 7 in Val-des-Sources (a town formerly known as Asbestos) distributes its products widely throughout the province. Our objective is to provide the framework for future fieldwork at the above two microbreweries and several others in the Eastern Townships area (*Cantons de l'Est*) to investigate the conditions that would make adopting the new Federal legislation supporting EOTs attractive to craft beer business owners in Quebec. Quebec has a long history of cooperative ventures operating in various sectors of the economy, perhaps the best-known being the large cooperative savings bank *Casse Populaire* (now known as *Desjardins Bank*) with branches throughout the province. Hence, the craft beer industry in Quebec could be fertile grounds in which to find owners who may be interested in adopting the new Canadian EOT legislation sometime in the future.

Two microbrasseries in the Eastern Townships, Hop Station and 11 *Comtes* (Counties), produce and distribute beer within the region. In 2017, three of the current owners of microbrasserie Hop Station, brothers Jeremie and Etienne Pelissier and Maxime Savage, started brewing their own beer in Coaticook. In September 2019, they opened a pub in the old Coaticook train station serving craft beer and providing an entertainment venue for local performers. In August 2020, the owners obtained a brewer's license to start producing their own craft beer for sale. With a fourth owner, the brewmaster, they began brewing and selling their line of craft beer at the pub. In micro-batches, they produce regular beers and beers aged in oak barrels for purchase and consumption on the premises and for distribution to convenience stores in the region. Most of the ingredients used in making the beer, e.g., malted grains and fruit, come from the region. When we[29] visited the pub in October, three employees and the four owners were working during what they considered to be the off-season. The bar tender informed us that the number of employees increases to eleven in the summer busy season. We learned the next day from the owner of 11 *Comtes* that Hop Station is the only "punk" pub in the region.

The microbrasserie 11 (*onze*) *Comtes* opened in July 2018; the ownership team wanted to make craft beer using local ingredients from the Haut-Saint-François region of Quebec. Built in a rural setting in Cookshire-Eaton, this microbrasserie is rooted in the surrounding agricultural community. When we visited it in October, the now sole owner Emilie told us that she employed six people including the brewmaster. The premises houses an outdoor terrace with a fireplace at which a couple were enjoying beer in the cold and a children's playground for seasonal use. The small indoor pub includes a fireplace and a retail shop, all of which are connected directly to the brewing area. Serving as the bar tender at the time of our visit, Emilie talked about the history of her business and gave us a tour of the facilities. The microbrasserie ages some offerings in oak barrels; it distributes cans throughout the region.

The Microbrasserie Moulin 7 is in Val-des-Sources, formerly called Asbestos because of the presence of the large but now dormant Jeffrey Mine from which asbestos was extracted in the past.[30] Moulin 7 was founded in 2013 by two beer aficionados, Yan St. Hilaire and Danick

[29] I was accompanied by my wife and designated driver so that I could do the required sampling.

[30] The information that follows is taken from the website at: https//moulin7.com/microbrasserie-moulin7/

Pellerin, who started brewing beer in their basements. They continue to run the production side of the business as co-owners. Nathaniel and Andreanne Bernier Roy, both originally from Drummondville, run the pub/restaurant business separately as co-owners. Nathaniel grew up in the area and brought Andreanne to Val-des-Sources in 2017. Nathaniel is an experienced chef who uses local products to create the menu at the restaurant/pub. Andreanne worked for four years as a waitress at the pub before taken over management and administrative duties of the business. The stated objective of the owners is to brew craft beers that are inspired by the town's mining history. The pub contains photographs and period memorabilia from its mining past. Hence, Moulin 7 is steeped in the local culture and linked closely to the agrobusinesses in the area. Microbrasseries Moulin 7, 11 *Comtes* and Hop Station are all on the microbrewery circuit (*Brasseurs des Cantons*) in the Eastern Townships and belong to the l'AMBQ.[31]

The Lion d'Or (Golden Lion) pub was opened in 1973 by Stanley Groves, Robert Barnett and David Seale, who were professors at nearby Bishop's University at the time (although Seale is referred to as a secret shareholder in early reporting about pub).[32] Current owners Stan (Jr.) and Kevin Groves, sons of Stanley, continue the association with the Bishop's University community and maintain the commitment to hire its students as part-time employees. The pub Lion d'Or celebrated fifty years in business with a two-day weekend bash at the beginning of July 2023. Accompanied by live music; beer sold at the original 1973 price when the pub first

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[31] See *Brasseurs des Cantons*; *Createurs de saveurs*, *Cantons de l'Est* for a list of the microbrasseries on the circuit.

[32] Information in this and the following paragraph is taken from the "Golden anniversary for the Golden Lion Pub" by Matthew McCully in *The Record* (Sherbrooke, Quebec) 4 July 2023 accessed at: https//www.sherbrookerecord.com/golden-anniversary-for-the-golden-lion-pub/

opened, around forty-five cents a stein. Stanley Groves' widow, Glenys, joined the festivities; when asked if she thought The Lion would still be around after 50 years, without skipping a beat, she replied, "absolutely not!" "My dad was a teetotaler," and mortified by the prospect that she had gotten herself a husband who planned to own a tavern Gladys opined.

In 2016, the Lion d'Or was offered for sale so that, according to Steven Groves (brother of Stan Jr. and Kevin), the family could rid themselves of the day-to-day operation of the pub and concentrate on the brewery.[33] The adjacent brewery was not included in the offer but was to become the business focus of the three Groves' brothers following the sale of the pub. The brewery, the first microbrewery in Quebec, was opened in 1986; the Groves' family privately owns the businesses. To explain the sale offering, Steven said that his brother Stan always wanted to make the brewery a legacy to our dad so that they wanted to focus on developing that part of the business. As for the pub, Groves remembered his mother Glenys saying that, when his father built the place, the original plan was to run it for ten years and then sell it. However, Steven stressed that it was important that any potential buyer be aware of the traditions and history that accompany the building. He reported at the time: "If the right person buys it and brings new energy, new ideas, a new menu, I don't see that as a bad thing," but he continued: "If it's not a good fit, we're sticking with it till we find the right person," concluding that such a business doesn't sell quickly. Part of the business model was always to employ students; Groves counted over two hundred student bartenders that had worked at the Lion d'Or, as well as countless cooks and servers over the years. He noted the sense of camaraderie among the pub's clients, who range from teachers and students having a post lecture pint to regular gatherings of

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[33] The information that follows is taken from the "Lion's tale and why it's for sale" by Matthew McCully in *The Record* (Sherbrooke, Quebec) 13 October 2016

the Lennoxville volunteer firefighters on the patio. In addition, local budding musicians got their first stage experience during an Acoustic night Tuesday. The brothers were committed to selling only to a new owner who would maintain this communal atmosphere. However, Steven's earlier prophecy came to pass; no such new owner was found so that Stan Jr. and Kevin continued to take responsibility for operating the pub and leave Steven to devote full time to the brewery.

Given the Groves' brothers interest in focusing on the brewery operation rather than running the pub, might Lion d'Or be a candidate for consideration as an EOT? Since most workers would be students at Bishop's University thus creating a an unstable-over-time workforce, would the voice component be an impediment to setting up an EOT? Would an EOT designed to give individual workers equity shares in the business mitigate any negative aspects of a high workforce turnover? Would the separation of the brewery and pub cause problems for establishing an EOT in only the pub? Such questions provide a starting point for investigating the attractiveness of the new EOT legislation to the Groves' family owners might they wish to promote employee ownership in the pub.

V. Conclusion: Meaningful Voice and Worker Agency in Craft Beer

For craft beer companies in the U.S. that have adopted an ESOP plan, a delicate balance between agency and voice arises. If the ESOP confers 100% employee ownership, the connection is likely to be stronger. In that case, workers are the sole owners of the business and, as a group, would have a reasonable voice. Since an individual worker has ownership rights over a share of the fund's equity and employees' shares must be bought back by the trust when they leave the company, each worker has a full agency stake in the business through this deferred compensation arrangement. On the other hand, if the ESOP affords workers as a group only a partial minority ownership stake while majority control remains with the owners/founders, any voice that workers may have will depend strongly on complementary aspects of the corporate culture. This connection between agency and voice raises an important question. Will full agency for an individual worker always be maintained through the deferred compensation stake? The experiences of New Belgium Brewery and Modern Times provide conflicting answers. When fully employee-owned New Belgium Brewery was bought by a Japanese brewery, its ESOP was dissolved but the current workers having shares in the fund were compensated from the proceeds of the sale. On the contrary, when minority worker-owned Modern Times was taken over by a Hawaiian brewery in dissolution proceedings, its ESOP was dissolved but no monies were available to compensate the workers' equity stakes. Of note, the majority shareholder of Modern Times was the CEO and founder. Perhaps meaningful agency and voice depend on majority worker ownership in ESOP companies?

Although majority communal worker voice is required in the new legislation promoting Canadian EOTs, exploring the prospects for adopting this structure in craft beer companies in Quebec is made difficult by the artisan nature of the many small companies currently in operation. We expect that profitable companies with a cash flow that is sufficiently stable to repay the acquisition loan for shares used to establish the trust from business earnings will be the most likely candidates for adopting the EOT structure. Although operating an EOT is less expensive than instituting an ESOP under the U.S. ERISA legislation, the small size of the workforce in most craft beer companies may still make such an adoption unattractive. Looking across the landscape in the Eastern Townships from microbrasseries that focus on a limited production line and have only a small network of regional distribution outlets, e.g., Hop Station and 11 *Comtes*, to craft beer companies that produce higher volume with a larger product line and distribute more widely, e.g., Moulin 7, we seek to identify likely prospects for the adoption of Canadian EOTs in the craft beer industry in Quebec. Based on the characteristics of these firms as compared to U.S. breweries with ESOPs, we hope to be able to conjecture on the likelihood that EOTs in such firms will bestow agency and voice on their workforce.

Perhaps the most promising craft beer venture for an EOT currently would be the Lion d'Or pub in Lennoxville; it is the oldest microbrasserie in Quebec and has been offered for sale by the family owners in the past. However, the workforce at Lion d'Or consists mainly of students from nearby Bishop's University so that year-to-year turnover is high. The Canadian legislation affords communal voice to workers by taking majority control away from the original owner(s) and vesting it in the EOT's Trustee Board. To what extent would student workers with short employment horizons find this communal voice sufficient to connect with and commit to the company? Would the establishment of individual ownership accounts in the EOT promote more commitment from the students and, thus, provide stronger current work incentives? Would the separation of ownership between the brewery that is currently owned exclusively by the founding family and the pub that is majority-owned by the EOT trust cause any conflicts given that the beer produced at the brewery and the beer offered for sale at the pub are the same product? Such questions are left to probe in future fieldwork.

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John Bonin

Appendix: Table 1

	Location	Estab.	Plan effective date (1/1)*	Active partici-pants	Rank: Craft Beer sales 2020**	Rank: Total U.S. beer sales 2020**	Total employer securities	Securities per active member***	Percent ESOP holding
NEW GLARUS BREWING COMPANY*	New Glarius WI	1993	2015	101	12	21	$18,570,158	$183,863	n.k.
MASS. BAY BREWING (Harpoon)**	Boston MA	1986	2014	134	15	24	$15,663,972	$116,895	minority
ODELL BREWING COMPANY*	Fort Collins CO	1989	2015	131	17	26	$8,215,008	$62,710	100%
THE SWITCHBACK BEERWORKS*	Burlington VT	2002	2016	30	n.r.	n.r.	$1,425,501	$47,517	100%
DESCHUTES BREWERY, INC.*	Bend OR	1988	2012	253	10	19	$8,080,868	$31,940	minority
ALASKAN BREWING, LLC*	Juneau AK	1986	2012	73	26	35	$2,052,421	$28,115	minority
INDIAN PEAKS (Left-Hand)****	Longmont CO	1993	2015	58	47	n.r.	$610,042	$10,518	minority
TWISTER CREEK (Denali Brewing)*	Talkeetna AK	2009	2017	40	n.r.	n.r.	$302,211	$7,555	n.k.
THE GREAT LAKES BREWING CO.***	Cleveland OH	1988	2018	144	22	31	$395,373	$2,746	n.k.
VOODOO BREWING COMPANY****	Meadville PA	2005	2016	28	n.r.	n.r.	$13,128	$469	n.k.

Source: NCEO database
Abbreviations: n.r. - not ranked in top 50; n.k. - not known
*Except for Deschutes Brewery: ESOP initiated on 12/12/2012.
** Source: Top 50 U.S. Craft Brewing Companies from Brewers Association
*** Author's calculations

*leveraged & S-corporation
**leveraged only
***S-corporation & not-leveraged
****not-leveraged & not S-corporation