Profiles of Five ESOP Companies
(Reading)

ComSonics

The Harrisonburg, Virginia, based company ComSonics, Inc., provides solutions for the cable television industry. Founder Dr. Warren Braun was an ESOP pioneer, turning ownership of his company over to employees through an ESOP in 1975. For Braun, the ESOP was an exit strategy. It was also a means to preserve the company, reward his employees, and protect the special culture that they had built, which encouraged creativity. Today the company employs 500 people. For a typical nonmanagerial employee employed for 10 years, ESOP account balances range from approximately $25,000 to $50,000 depending upon position, commensurate pay, and other variables, according to CEO Bret Harrison. In addition, employees receive annual bonuses tied to company performance and rewards for productivity improvements. To Harrison, leading an ESOP company requires "a different leadership style" founded on openness and transparency. "The openness of a healthy ESOP culture encourages new ideas to be brought forth," he says. ComSonics is unusual in that its "employee advisory committee" not only communicates about the ESOP to the workforce, but the chair of that committee also sits on the company's board of directors as a full voting member, providing an employee a seat at the governing table.

National Van Lines

National Van Lines, Inc., had been a family-owned business since 1929. Maureen Beal, the longtime CEO who retired in 2019, was the granddaughter of the founder and the third-generation owner within her family. The company launched the ESOP in 2011 as part of a succession plan that enabled Mrs. Beal and her brother to cash out while protecting the jobs of employees, who they viewed as an extension of their family. Today the moving and relocation company, based in Broadview, Illinois, has 140 employees, many of whom work hourly clerical and administrative jobs. The company's commitment to those employees was tested when it faced the unprecedented economic downturn of the Covid-19 pandemic. As Vice President of Finance Gerry Mundt puts it, at that time: "Our CEO's main focus was 'How do I keep everybody in this employee-owned company employed if our business gets cut in half?'" Gerry Mundt believes that company leaders' determination to avoid furloughs or layoffs in March of 2020 "is a perfect example of what employee ownership means."

Max Auto Supply

At Max Auto Supply Co., a Toledo-based chain of 113 automotive repair stores, CEO Randy Katz's main motivation for adopting an ESOP was "to cash out family owners and avoid estate tax." The company had been started by his father and his uncle, Art and Calvin Katz, in the 1950s. The children—Randy Katz, his sister and their three cousins—later took over the business, with Randy running the company day to day. As this second generation began entering their 60s, Randy Katz grew increasingly concerned about their potential estate tax burden. "The more I learned about the ESOP structure, the better it looked," he said. It would enable the five family owners to cash out their shares now and avoid an estate tax bill later. It also "felt like the right thing to do," Katz adds, for the company's employees, most of whom are mechanics and technicians. "Many of our employees had been with the company for a long time and the ESOP presented an opportunity for the company's employees to accumulate real wealth for their future retirement." Since adopting the ESOP three years ago, the company has seen a large increase in profits, a reduction in turnover, and a greater than expected increase in stock value. Employee retirement accounts are growing at what Katz describes as "an exceptional rate."

Parksite

Parksite, Inc., is a privately held 100% employee-owned construction materials distributor headquartered in Batavia, Illinois, known for helping to launch Corian® solid surface material and Tyvek® building wrap as everyday construction materials. The company was founded by Ray Biggins and John Morrisroe in 1971. They faced a transition challenge in 1987 when Ray started thinking about retiring. John was still in his 40s and nowhere near ready to retire. He could not afford to buy out Ray, but they did not want to see Parksite sold to an outside buyer. The ESOP presented a solution: In 1989, Ray's half of the company shares was transferred to the ESOP, and John kept his own shares. Then in 1998, John too retired, selling his shares to the ESOP, making Parksite 100% employee owned. Today the company employs 750 people in 23 locations; about half of Parksite's employees work in operations (warehouse and delivery). On top of their wages, all employees get an ESOP contribution. It is not uncommon for employees who have worked for 20 years to have ESOP account balances of $800,000 or more. In addition, the company offers a 401(k) match. "You're always training, educating, communicating," former CEO and current board chair George Pattee says. Pattee, a ball player himself, says: At Parksite, "we're a good team." The "best team wins. It's not a bunch of individuals. Everyone pitches in. … The whole means something."

S&C Electric Company

S&C Electric Company employs two thousand people on its 47-acre campus on Chicago's north side. Wages start at $18 per hour, plus benefits. Workers live locally. These are good, community-sustaining, jobs. This 110-year-old company, a global provider of equipment and services for electric power systems, was founded by Nicholas Conrad, who was succeeded by his son John Conrad. When John Conrad passed away in 2005, S&C Electric's independence—and its good jobs—were placed in jeopardy. John Conrad's daughters inherited the company but had little interest in keeping the stock. Two of the three daughters intended to sell their shares to an outside buyer. If they had succeeded with the external sale, that likely would have meant the end of the storied company founded by their grandfather. Instead, after a period of deliberation and negotiation, the daughters sold their shares to an ESOP, taking advantage of the Section 1042 provision of the Internal Revenue Code known as the tax-deferred rollover. The sisters' decision to sell their shares to the ESOP preserved the company. For the workers, the ESOP meant that their jobs would continue, and that on top of their wages and already generous retirement benefits which included a 401(k), they would become the company's shareholders.

Supplemental Reading

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(Reading)

These full-length case studies about ESOP companies are optional reading for students.

Case Study: "SRC Holdings: Winning The Game While Sharing The Prize"

Case Study: "MBC Ventures, Inc.: An Employee Stock Ownership Plan With a Union Partner"

Case Study: "'Here, You Earn It': Employee Ownership at Parksite, Inc."

Find links to more than 100 case studies of employee-owned companies in the Curriculum Library for Employee Ownership, the online library of teaching and research materials about employee ownership.