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# Teaching Case Study

# “Here, You Earn It”

## Employee Ownership at Parksite, Inc.

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# “Here, You Earn It”: Employee Ownership at Parksite, Inc.

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*Abstract:* This case study examines employee share ownership at Parksite, Inc., where the employee stock ownership plan (ESOP) is paired with a strong company culture and high job quality. For the company's co-founders, the ESOP provided a solution to a major transition challenge. The company's long-term employees accumulate considerable stock wealth through the ESOP. Discussion questions for classroom use are included.

“You have to have a culture before you have an ESOP,” says George Pattee, the former CEO and current chair of the board of Parksite, Inc.

Parksite 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.

Long before they adopted an Employee Stock Ownership Plan or ESOP, the company’s founding owners Ray Biggins and John Morrisroe had set the tone. “There’s no ‘it’s not my job’ here,” founders Ray and John used to say. From the company’s earliest days, long before the ESOP, they imbued and modeled the expectation that employees “do what’s needed.” Everyone, whatever their title, shared in responsibility for the company as a whole.

When George Pattee started working at Parksite in 1972 as a seventeen-year-old, loading trucks, he noticed right away how owners John and Ray would themselves do any and every job. They’d sweep the floors. They’d load heavy boxes. He still remembers the first time they asked him to go out and speak to a customer on behalf of the company; he was still a teenager.

Sometimes you forge a new path to avoid bad terrain you’ve experienced firsthand. Early in their careers Ray Biggins and John Morrisroe had themselves experienced working for a company that was sold to a larger competitor. They, as employees, felt they were “turned into just a number.” When they decided to start their own company, Parksite, in 1971, they were determined to do things differently. “Our whole purpose was that we wanted to be treated well. We wanted employees to be treated well,” recalls John Morrisroe. They wanted a “family type business” even though none of their combined eight children were involved; “Ray had five kids, I had three. We decided no firm can survive 8 VPs,” he says wryly.

*ESOP Solved a Transition Problem*

In the early years they didn't dwell on the fact that Ray was significantly older than John. In 1987 when Ray started thinking about retiring, they faced a transition challenge. John was still in his 40s and nowhere near ready to retire. He did not want to sell the company, but he could not afford to buy out Ray. They did not have a buy-sell agreement (known colloquially as a "business pre-nup"). Two men in Chicago expressed interest in buying them out--but they did not want to see Parksite taken over.

Advisers explained a novel solution: Employees could buy the company. A few years prior, in 1984, Congress had put tax incentives in place to encourage Employee Stock Ownership Plans (ESOPs). Section 1042 of the Internal Revenue Code enabled business owners to sell their shares to an ESOP and defer federal tax on the transaction. Parksite completed its initial ESOP conversion in 1989 using the 1042 election, transferring Ray's half of the company shares to the ESOP, to be held on behalf of employees. The company borrowed money to fund the buyout of these shares then paid off the debt over time out of their profits. John retained his shares and continued to lead the company.

In 1997, John was beginning to consider his own retirement options. The company had fully paid off the ESOP bank loan they had used to buy Ray's shares the decade before. A new structure for employee ownership was being developed in Congress, the 100% S Corp ESOP. Legislation passed in 1996 and 1997, effective January 1, 1998, allowed an ESOP to own stock in an S corporation[1].

Advisers explained to John that if he sold his remaining stock to the ESOP, there would be no federal income tax to pay; all the value of his stock could in effect go to the employees. After

[1] The S corporation is a form of business ownership in which the corporation pays no federal taxes on its earnings. With a 100% ESOP-owned company, there is no federal tax, and often no state tax, at all. By saving on taxes, S Corporations may have more cash to pay down debt, fund investments in equipment and technology, or to pursue acquisitions.

listening to the advisors for 10 minutes or so, John said: "I'm selling my shares. This is the right thing to do for the shareholders," he said, meaning his employees. Parksite became 100% employee owned through the ESOP on January 1, 1998.

At that point George Pattee, who'd started as a teenaged truck loader, became CEO.

Back when the company first established an ESOP in 1989 the company had 22 employees. Today it employs 750 people in 23 locations. Its compound average annual growth rate averaged 20% for extended periods during that time. To Pattee that means that for its employee shareholders, Parksite has performed better than most public companies and the S&P 500. In the last 5 years alone, the compound average annual growth rate has exceeded 30%.

Today about half of Parksite's 750 employees work in operations: warehouse and delivery. There are about 250 warehouse employees and about 100 drivers. The lowest wage job in the company is a warehouse job. Warehouse employees often earn between $15 and $20 per hour, according to Pattee, making about $40k per year plus some overtime. The majority of the workforce consists of culturally and racially diverse populations. This is not because of any quotas explains Pattee. They simply seek to hire the best person for the job; the "best athlete for the team," and as it turns out a strong and diverse workforce results.

*Information and Responsibility*

"I will never give someone a turkey or a ham for Christmas," George Pattee says. When Parksite acquires new companies where employees are accustomed to getting a holiday bonus, they must explain that whatever the previous company used to do, "here you earn it." Employees are rewarded through their compensation, and through the company contribution to the ESOP at year end (it's typically between 7% and north of 10% of employee pay)—and not with turkeys, hams, or holiday bonus checks.

The company's ownership culture is founded on information sharing with employees; there's an expectation that employees understand company finances as a whole and the ways their own actions affect performance.

"We get granular," says George Pattee. "Some people tell me it's too much information. But it's necessary."

There are monthly company-wide calls, where all employees are invited to listen in for 45 minutes. Senior management reports on operating expenses, sales, EBITDA revenue, and reinforces Parksite's culture of ownership, for example by recognizing individual employee- owners. Ninety percent of employees listen in every month. (Sixty to seventy percent participate live; others like drivers who are on the road during the call listen to a recording.) The monthly call gives senior management the opportunity to explain finances. "You're always training, educating, communicating," George says.

Co-founder John Morrisroe who still serves on the board observes, "George to his credit would stop and have big discussions with all the employees--truck drivers, everybody, and he'd pound it in: YOU ARE AN OWNER OF THIS COMPANY. What you do reflects on the whole company and what the whole company does benefits you, good and bad. If the company's bad, you're getting hurt. If the company's good, you're getting good out of it."

How do new employees connect the company-level financial performance information they learn to their own work-related choices? Making that connection is key to what being an owner means at Parksite. It's more than just an abstract understanding that their financial stake is tied to overall company performance; it's more personal and more specific than that.

It typically takes new employees a least a year or two to start to figure it out. After a couple of years, when they get their first ESOP participant statement showing their account balance, newer employees will start to ask questions like "How can I help increase shareholder value? I'm just a warehouse guy."

They will typically be told first: "Work hard, show up, and focus on lines per FTE" (meaning lines per full time equivalent, a measure of productivity capturing how much warehouse employees complete per day). If they can move from completing 40 lines to 60 lines, that improves bottom line profit and encourages share value to go up. Management conveys that when employees produce better, profits go up, and employees over time will see the benefits in the form of increased wealth. "That does not mean working harder per se, we want to work smarter," says George.

There is also a careful focus throughout the company on expense-control, a focus motivated and reinforced by employee ownership. Drivers know to shut their truck off if they stop somewhere for more than 3 minutes. Warehouse employees used to throw used pallets away. They realized that putting nails in the pallet to fix it saved the company $35, reducing waste. These small individual employee choices, they all impact the bottom line, and that impacts ESOP account values over time.

To ensure employees understand the projected value of their own shares, the company created an online ESOP "calculator" built from an Excel spreadsheet. This makes concrete to employees just how much skin in the game they have and what the value of their financial stake could be in the future. An employee can enter their wage into the calculator, the ESOP contribution for the year, and an estimated share price in the calculator. With that they can see an estimate of how much ESOP wealth they are likely to have, based on those assumptions, in the future.

Research shows that ESOP companies outperform similar firms.[2] Parksite's approach to information sharing and cultivating employees' sense of ownership illustrates how employee ownership helps to align employees with company profit goals and support overall company performance within one successful privately held ESOP company.

*How Have Employees Fared? Job Quality*

The U.S. economy is experiencing a crisis of job quality. Many Americans, and disproportionately people of color and people without college degrees, work in jobs that fail to provide sufficient compensation to support a household, job security, or savings for the future, let alone give workers a sense of meaning, or opportunities for growth and learning.

Employee ownership at Parksite strengthens key aspects of overall job quality for its workforce. The ESOP, over and above other benefits and good employment practices, delivers significant wealth to employees including frontline employees. It has also necessitated and facilitated real information sharing. Parksite's team culture and respect for the "whole," which makes employee ownership work well at the company, was a factor in ensuring job stability for employees even during periods of downturn.

*Pay and Benefits*

The company pays market wages and salaries, using benchmark analyses, for all jobs including senior management. On top of their wages, though, all employees get an ESOP contribution. In addition, the company offers a 401k match. While Parksite's straight wage may not be significantly higher

[2] In one large pre- and post- study, "Firm Survival and Performance in Privately-Held ESOP Companies," Joseph Blasi, Douglas Kruse, and Dan Weltmann find that ESOPs appear to increase sales, employment, and sales per employee by about 2.3% to 2.4% per year. They also find that ESOP companies have a higher survival rate than non-ESOP firms.

than its competitors, its total compensation package can be considerably higher than average. This is all the truer for lower wage lower skilled jobs.[3]

*Wealth*

Employee ownership is not some symbolic ephemeral thing at Parksite. As of 2021 the ESOP held nearly $100 million in plan assets with more than 600 active participants, according to Brightscope, a provider of retirement plan data that draws on Department of Labor information.

For a new operations associate such as a truck driver earning $50,000 per year, if they stay for 10 years, they could expect to see ESOP retirement account balances well in the six-figure range based on historic contributions and company performance valuations," George Pattee, Chairman of the Board, estimates. That's an amount at least three times higher than the median value of financial assets owned by all households nationwide.[45]

One longtime office employee who handled invoices used to say that she did not understand what owning stock meant. 'I've never owned stock in anything,' John Morrisroe remembers her saying. "She retired with $400,000 or $500,000. When she got the check, then she understood what ownership meant. I don't think she'd ever graduated high school," recalls John.

Steve Schmidt, who started at Parksite as a warehouse worker, was promoted to warehouse manager, and eventually worked his way up to be Vice President of Logistics, retired at the end of 2016. He

[3] Nationwide the median annual wage for transportation and material moving occupations was $32,440 in 2019 (BLS). Approximately 49% of workers in transportation and material moving occupations participate in any retirement benefit, according to the Bureau of Labor Statistics. Most black and Hispanic families have no retirement account savings at all, according to the Survey of Consumer Finances.

[4] The conditional median value of all financial assets owned by families is $25,700 and the median net worth of African American families is $24,100 according to the Federal Reserve Bulletin (September 2020).

[5] This is consistent with national patterns; studies suggest that employees of companies with an ESOP have [twice] the average retirement assets as those who work at non-ESOP companies.

reflects: “The ESOP statements were always just that piece of paper. You weren't really touching it; you see it and kind of put it in a drawer and not really think about it. When I left and got that first distribution in December of 2016…the piece of paper is reality now.” He has three kids and five grandkids. “It really gives us freedom, options, opportunities to do things for ourselves and our family and for others. The reality is it's much more than I ever imagined.”

As is common in ESOP companies, the long-time employees who were employed at the time of the ESOP conversion have seen their ESOP accounts balloon relative to newer employees. They received large initial distributions of shares at a time when there were few employees, so the shares were divided among a smaller pot; the long timers also benefited from the share price rising over a lower base starting point and over a longer time period. Therefore, something of a two-tiered dynamic emerges where very long-term employees accumulated very large sums and more recently employed employees accumulate very good but not-as-giant sums in their ESOP accounts.

Recent Parksite retiree Steve Schmidt explains: “People understand that if you were there early on you got more shares. But if you came on board later and got a share, and it goes up 79% in one year, it's still a great benefit."

Indeed, employees on payroll for under 10 years still accumulate “a lot,” according to Pattee, thanks to contributions of 7% or more of their base pay and the rising stock price. The account balance “accumulates really quick.” It’s not uncommon for employees who have worked for 20 years to have ESOP account balances of $800,000 or more.

The pension law that governs ESOPs (ERISA) requires inclusivity. Unlike stock plans designed to reward top brass, ESOPs are required, with very few exceptions, to include virtually all employees with a year or more of service. That means that every single employee on payroll at Parksite will start accumulating stock wealth after a year of service. Employees who leave quickly, some in search of a higher wage, will not benefit significantly from the ESOP. It can take several years to accumulate substantial account balances. Therefore, the ESOP benefits employees who stay. To Steve Schmidt, "It takes a minimum of 5 or 6 years before you really start to see the chunk of value that's sitting there, before you really start recognizing what a nice benefit this was."

Parksite also offers a 401k retirement plan with match, to enable employees to diversify their retirement savings. As much as the ESOP has delivered in terms of wealth, they also understand the importance of employees not storing all their eggs in one basket. "Businesses can grow, and they can fail," George Pattee says.[6]

*Job Stability*

During the Great Recession of 2008-2009, facing an unprecedented and sudden drop in revenue, the company reluctantly laid off about 75 employees, about 20% of the workforce at that time. Concerned, a group of employees came to management with an idea. They didn't want to see more team members laid off. They asked management to stop layoffs, and instead cut everyone's hours and pay. They called it "DOWOP or Day Off Without Pay." The idea was through a bit of shared sacrifice to keep needed team members on payroll. By cutting pay by 4.7% instead of cutting people, they were able to "keep integrity of the organization," says George, "because 'the whole' means something."

During the Covid pandemic, through the dramatic economic slowdown of May 2020 through October 2020, the company never let anyone go.

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[6] This is consistent with national patterns; most ESOP companies offer a second retirement plan of some kind. Moreover, ESOPs are a free retirement plan.

The board management and salaries all took pay cuts between May and October. Hourly workers continued at their regular pay levels, although at some locations there was a temporary reduction in hours. The company's longtime practice of intensive information-sharing has proved helpful during these occasional periods of downturn. Steve Schmidt summarizes: "Parksite had worked hard at communicating how the ESOP worked, what factors go into it to make it go up. When the crash came [in the Great Recession of 2008] those prior communications helped. Nobody liked it and none of its easy, when shareprice drops dramatically three years in a row, but there was a level of understanding, it made it easier to talk the company through why it is going down."

*Other Job Quality*

In many other ways, Parksite is what some would call a good jobs employer, offering most employees stable predictable full-time schedules, a safe environment, a living wage, job security for those who perform their jobs well, in an atmosphere of respect. In addition to the ESOP, most employees at Parksite participate in the 401k plan and health insurance and qualify for other benefits.

Employees understand that they are entrusted to do their jobs well and are an essential part of a larger whole—although they "don't get to vote on what kind of light bulbs," George stresses.

The ESOP undoubtably helps with retention. When people see colleagues retiring with large sums, it makes them want to stay.[7]

[7] While early departures have not been a problem, to help deter the temptation to cash out, rather than giving employees a lump sum, there's a five-year payout schedule after an employee's retirement (or becomes disabled or leaves the firm). Retirees receive 1/5 of their account each year over a five-year period during which time the share value can increase or decrease.

*What Does Employee Ownership Add?*

"The culture came first" and the culture is important, Parksite leaders stress.

The core values were there already. "Prior to the ESOP John and Ray were already running the company like an ESOP; we're all in this together. They ran the business that way before they even got into the ESOP," says Steve Schmidt.

So, what does employee ownership add?

"It's the combination," Pattee says. "Altruistic for self" Pattee calls it; the ESOP says to all, "be altruistic, give of yourself to the whole, and you're doing it for yourself, for your own self-interest, too."

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. We started with the philosophy of "there's no it's not my job." That's what being a team is. "The whole means something." The sentiment was expressed by employee owner Dawn Ulepich this way: "We are more than a team; we are a tribe!" she wrote in a recent issue of Sitelines, the employee newsletter. The newsletter includes a long list of employees and their anniversaries, recognizing and celebrating how long each employee had been working at the company.

Parksite co-founder John Morrisroe, now in his 80s, believes employee ownership was essential.

> "Well, I sure think it does add to the culture. If you're gonna slack off, really, you're hurting yourself and more. If you can get that point across to people, almost all the time they will reach down and find the stuff it takes to go beyond. I don't know that it would happen without an ESOP. Otherwise, everyone is just collecting a check and going home at the end

> of the day tired and grousing. This way, it's 'Hey, I had a big day today. We sold this, this we sold that, we fixed this we got that.' It's a lot more exciting, a lot more."

"You know there's two words that come to mind," John Morrisroe reflects, 'We. They.' When we heard employees use the word 'they,' we knew we had not made a connection. Once they started using the word 'we,' we knew they were on board."

**Discussion Questions**

How did the ESOP provide a solution to Parksite's transition challenges? What advantages did the ESOP provide as a tool of company succession?

"Culture comes first," according to company leaders. What are some features of Parksite's culture? How might employee ownership support or reinforce this culture?

How does employee stock ownership give Parksite employees a stake in the company's success? How does owning stock help employees connect their own work activities to company performance?

Why do company leaders at Parksite take "information-sharing" so seriously? What does sharing information (for example about company financials) with all employees including frontline employees, help to accomplish?

How might information support collaboration and innovation?

Why did Parksite leaders implement the Day Without Pay or "DWOP" during the Great Recession? What might their alternatives have been, at the time? What were some of the risks and benefits associated with leaders' choice to implement the DWOP rather than lay off additional employees?

What are the most significant benefits of employee stock ownership for Parksite employees?

What else could be done to make the ESOP meaningful to the worker-owners, especially new hires? What else could be done to optimize the benefits of the ESOP?

How could collaboration and innovation be increased?