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Teaching Case Study

Milestone Environmental Contracting Inc.

Employee Ownership as Next Step for a Fast-Growing Environmental Remediation Company

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Milestone Environmental Contracting Inc.: Employee Ownership as a Next Step for a Fast-Growing Environmental Remediation Company

Teaching Case with Discussion Questions

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Abstract: This teaching case study explores employee ownership at Milestone Environmental Contracting Inc. Milestone has long seen its employees as crucial to achieving its ambitious vision of becoming the general contractor of choice for governments, consultants, and engineers in an increasingly in-demand field in Canada. Recently, grounded in a desire to ensure that growth is more equitable and responsible, the company has decided to share ownership with its employees. Its current approach entails sharing equity with a small number of employees using a dual-class share structure. However, as the company plans to expand this program to more employees, it is aware that it will have to think carefully about which employees are eligible, how these employees will be involved in the company's governance, and how its ownership structure can encourage employees to contribute to the company's sustainability agenda. The Canadian government's new Employee Ownership Trust model offers an additional possibility for the company to consider.

Topics: Employee Ownership, Sustainability, Governance, Public Policy

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This is a teaching case study. Additional versions of this case study may appear in print. This case was developed solely as a resource to stimulate classroom discussion. It is not intended to provide management advice on how to establish or operate an employee-owned organization, or to highlight effective or ineffective management decision-making. The authors are grateful to Milestone Environmental Contracting Inc. and all individuals who participated in interviews for their time and support. When requested, the authors may have disguised names or other identifying information to protect confidentiality. The authors would also like to acknowledge the generous support from Simon Pek's Social Capital Partners Fellowship from the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University, New Jersey.

A Decade of Explosive Growth… by Focusing on People and Partnerships

In 2021, Milestone Environmental Contracting Inc. (Milestone) produced a video that celebrated its 10th anniversary by highlighting how a culture of respect and collaboration, and a focus on people, has led to tremendous success in the environmental remediation industry. In reflecting on the video and the hundreds of sites the company has cleaned up, founders Mark Seaman and Barry Grover, along with the current CEO, Eric Pringle, are proud of what their employees and partners have accomplished, and look forward to being a key player in Canada's sustainable future.

"Bring us your toughest jobs… We dare you." This motto features prominently on the company website and captures the original intent of Seaman and Grover, who saw an opportunity to excel in the tough business of environmental remediation and construction. The decision to create the company in 2011 was driven by a vision of a workplace where top talent would work collaboratively with strategic partners to become the general contractor of choice for governments, consultants, and engineers in an increasingly in-demand field. Retaining and incentivizing valuable employees is central to this vision. Grover emphasizes that "for Milestone to continue to grow and prosper, employees will need to share in the success of the company."

Expanding ownership to include employees is an obvious next step. The executive team is moving forward with a plan to reward employees who embody the vision and values of the company and who can drive the next stage of growth by offering them a chance to become owners. It will take time to design the right governance and ownership structure for the unique situation at Milestone, but Seaman, Grover, and Pringle are emphatic that this is the right direction to head.

Capitalizing on the Opportunity in Environmental Remediation

Milestone has grown rapidly since its founding in 2011. Following early success in the Ontario communities of Marathon and Kitchener, as well as Lorado, Saskatchewan, the company set up additional offices in 2014 in Toronto, Ontario, and Langley, British Columbia, to better service Southern Ontario and Western Canada, respectively. The Langley office was built around the current CEO, Pringle, who developed a highly successful partnership with Matcon Civil Constructors, a leader in the civil construction industry in Western Canada, which set the stage for a successive series of mutually beneficial partnerships and joint ventures. Additional offices were established in Port Hope, Ontario, in 2018 and Cambridge, Ontario, in 2021.

Milestone is involved in soil and groundwater remediation, decommissioning and reclamation services for industrial facilities, and marine and heavy civil construction. Its ‘bench strength’ is built on a deep commitment to its 70 employees and strong partnerships with construction contractors in nine joint ventures.

This bench strength is supported by a strong focus on corporate responsibility. Given the nature of its operations, Milestone has a natural connection with environmental sustainability. For social sustainability, Milestone has made commitments to Indigenous partnerships and community engagement. In fact, many of Milestone’s joint ventures and partnerships have been with Indigenous-owned companies, making them industry leaders when it comes to economic reconciliation with Canada’s Indigenous communities. Milestone also has a strong commitment to giving back to communities, having made significant donations to more than 28 non-profit and community organizations. For example, the 7th annual Milestone Cup charity hockey tournament is planned for 2023, adding to the tens of thousands of dollars raised for various charities through this event.

Milestone’s corporate responsibility initiatives continue to evolve. Employees have recently been asking how Milestone can better communicate and leverage this environmental and social leadership. Pringle reflects that:

> *One of the struggles we have is that we feel our impact from how we do our business is very positive. On social issues around indigenous engagement and partnerships and economic reconciliation, I think our impact is quite remarkable. Likewise for the environmental remediation we do to clean up sites. The challenge we’re facing is how do we ‘talk the walk’.*

To ‘talk the walk’, Pringle is planning a corporate ESG report that tracks environmental and social metrics. However, organizational metrics are one thing; demonstrating a positive impact in the world is another. As a result, he is also exploring ways to track the broader social and environmental impacts generated by Milestone and its employees.

Overall, Milestone’s commitments to its employees, collaborative partnerships, and corporate responsibility have served it well. Exceptional growth—more than 200% annually in 2018 and 2019—led to recognition as one of Canada’s fastest-growing businesses by Maclean’s magazine and Report on Business in 2019. Of course, the pandemic complicated operations for Milestone, as it did for millions of other companies worldwide, but it did not slow its success. In fact, in 2020, the first year of the pandemic, Milestone completed 70 different projects, including some of the biggest projects it had ever taken on. Not surprisingly, in 2021 it was again recognized as one of Canada’s 200 fastest-growing companies. Currently, Milestone is approaching $75M in annual revenues, with continued sustainable growth expected.

Growing Interest in Employee Ownership

Over the years, Milestone has developed a growing interest in employee ownership. This interest is largely attributable to the company's focus on the welfare of its employees. As Pringle acknowledges, rapid growth can come with challenges: "In your garden, if you have super rapid growth, usually it's an invasive species!" He emphasized that the company's mission, vision, and values are centred on people, not growth. He is deeply concerned with how management decision-making affects the well-being of employees:

> *I'm very aware of the fact that if staff are feeling burnt out, we need to make different decisions or explain our decisions differently. In the midst of the Great Resignation, that's front and center for every organization.*

Expanding ownership opportunities to employees is a natural extension of this commitment to the people who work at Milestone.

> *I came on board in 2014 and, for me, employee ownership was critically important. I just have a belief that employee ownership is a better way to go. In my career, I've been involved in lots of companies that have the model of 'grow fast and exit'. A small group of owners have done well, but the overall company has not.*

Pringle sees employee ownership as a means to drive long-term, sustainable growth, as well as a way to reward and retain top talent. These considerations have become even more important in the tight labour market that followed the onset of the covid-19 pandemic, which resulted in a heightened focus on employee retention for many companies. Harpal Brar, Vice President, Finance, has played a central role in evaluating options for the transition to employee ownership and sees it as an important means to retain key employees:

> *In this labour marketplace, with the challenges of attraction and retention, people are looking for that extra bit beyond salary. They're asking: 'How do I align myself with a company that has the right long-term view for me?' So I think employee ownership and retention go hand-in-hand.*

Another reason for the company's growing interest in employee ownership relates to its corporate responsibility commitments. Pringle believes there are important affinities between employee ownership and environmental and social responsibility. Indeed, he sees convergence in the mission, vision, and values of the company, notably, the focus on caring for employees, business partners, local communities, and the planet:

> *We talk about Indigenous solutions to make the world a better place. We talk about cleaning up the toughest challenges because that makes the world a better place. We're committed to our people. I don't know how to unpack those elements because, to me, they're all woven together.*

Milestone's growing interest in employee ownership is guided by two additional considerations. First, as the founding partners contemplate retirement, they prefer to sell their equity to individuals who share the vision and values that have made Milestone successful. Who better than the employees who helped build the company? Second, Milestone's external investors, who provided critical funding for early expansion and ensured access to credit facilities, also see employee ownership as the right way to divest their ownership interests.

In 2018, the existing shareholder group (and Board), which includes outside investors, the two founding partners, and the CEO, agreed to expand employee ownership more widely. The goal is not necessarily to have 100% of employees become owners—although that is a possibility down the road—but, rather, to have 100% of owners be active in the business. In other words, all owners should be active, but not all employees need to be owners.

Milestone is pondering the best way to proceed. How can the company expand the ownership circle in a way that rewards and incentivizes employees who make significant contributions to the company and drive sustainable growth without losing strategic direction?

Getting Started with Employee Ownership Milestone

Milestone's initial plan is to expand ownership to a select group of key employees, with plans to include more employees over the next several years. Various models for employee ownership are available, each of which has pros and cons. Appendix A provides some detail on the different models used in Canada and abroad. Broadly, the key differences among the models relate to whether employees have direct or indirect ownership, who exercises the governance rights that go with share ownership, and whether employees pay for the shares or not.

However, as the company thinks through a longer-term model for employee ownership, the short-term plan is to start by offering options to buy equity to a select tranche of 8-12 core employees. These potential employee-owners will be selected based on seniority and level of responsibility, and will have 90 days to exercise their option at the current valuation of the company shares (i.e., the 'strike price'). Project managers and experienced job site supervisors are obvious choices for the first tranche. The leadership at Milestone feels it is important to begin with those who show significant potential to contribute to the company's long-term success. In the words of Pringle:

> *These are the people that typically can directly affect the performance of the business. It's about alignment between the growth and performance of the business, and ownership.*

Using short-term options reflects a desire to give employees some flexibility to decide how much of an investment they would like to make. This can be a weighty decision for employees, who have to feel comfortable investing in the firm. An oft-cited criticism of employee ownership is that employees can have a sizable portion of their wealth tied up in a single enterprise, which creates risk due to the lack of diversification in their personal portfolios. Equity options allow them some time to think about what it means to be an employee-owner. For Pringle, a shared long-term perspective is critical:

> *You have this opportunity to exercise your options. Do you want to become a shareholder? Do you understand what the issues are? We want to know the employee's character in the longer-term context. Their ability to understand the elements of the business and how to drive the business forward.*

While the company will start by offering options to key employees, Pringle sees room for expansion and modification over the longer term. The question is how to develop an ownership and governance structure where the core group of managing partners, who have borne the bulk of investment risk to date, retain control of the company while ensuring that new employee-owners are strongly incentivized by sharing in future success. Indeed, a concern for some forms of broad-based employee ownership (especially where employees collectively own a majority stake in the company) is that the potential diffusion of control can create challenges for strategic direction. For Pringle, a related issue is how to retain a collaborative culture when not everyone is an owner:

> *We will need to avoid a situation where you have a group of people getting together for a discussion where three of the people are employee-owners and six are not. As the discussion goes forward, somebody says 'Well, you know, the three of us are owners and we feel that option A is preferable to option B' … even though option B might be preferable to the majority of folks in the discussion. We're trying to make it clear that ownership and management are distinct.*

For Milestone, then, the current plan for organizational governance is to retain a traditional management model and use a dual-class share structure, similar to structures used in many businesses with different types of shareholders. Class A shares will be reserved for existing owners, including the founders. These shares will include governance control rights, such as the right to appoint Directors and make strategic decisions, in exchange for the fact that these investors made important covenants and guarantees for the business. Class B shares will be offered to employees who decide to exercise their options. These shares will have minimal control rights but easier redemption rights and equal dividend consideration. Class B shares can be sold back to the company annually, although there will be no mechanisms initially for selling these shares to other employees or external parties. For Pringle, this dual share structure is a fair compromise at this point in time: employee-owners will enjoy the right to share in the profits without having the additional risks associated with underwriting the liabilities of the company. However, over the longer term, the ownership model will undoubtedly evolve, particularly after recent policy changes in Canada to encourage employee ownership transitions in privately-owned companies like Milestone.

Expanding Employee Ownership

> "Budget 2023 proposes new rules to facilitate the use of EOTs to acquire and hold shares of a business. The new rules would define qualifying conditions to be an EOT and propose changes to tax rules to facilitate the establishment of EOTs."

Unlike the United States and the UK, where ESOPs and EOTs, respectively, have long been encouraged by favourable tax policies, Canada historically had few incentives for divesting ownership to employees. This made the process costly and time-consuming for founders and owners. However, recognizing the positive social and economic impacts of employee ownership, the Canadian government recently announced a special-purpose Employee Ownership Trust (EOT),[1] which will be supported by some tax incentives and available as of 2024. The goal of the new trust is to create a more equitable alternative for the thousands of Canadian small- and medium-sized companies owned by Baby-Boomers looking to divest ownership in the next decade as a result of the 'Silver Tsunami' of aging demographics.

The challenge for Pringle and his team as they expand employee ownership is whether to stick with the current options-based model, shift to an Employee Share Purchase Plan (ESPP), or embrace the Employee Ownership Trust (EOT) that the Canadian government announced. As noted in Appendix A, both the options model and the ESPP model require employees to purchase shares to become owners, which means they may also expect more control rights. However, under the trust-based model, employees will not have to pay for shares and there will be some tax benefits for the founders and existing investors. Of course, an Employee Ownership Trust also means employees will not have direct share ownership (because the trust buys and holds the shares on behalf of employees), and Pringle wonders if their commitment to the company will be diminished.

Because Milestone has a history of actively engaging with employees, Pringle does not see a strong demand for formal control rights from the first tranche of employee-owners. But he concedes that over the long term, Milestone will have to think through how much governance control it should divest to its employee-owners.

> *Because we are a relatively small company with zero degrees of separation, everyone knows what our core business is, how we operate, and what the business risks are. This allows us to have meaningful employee engagement without getting into the formalities of voting rights. But we'll probably have to address these issues over the next 3-5 years.*

Another advantage of the trust is that it would exercise control rights on behalf of employees (although employees would elect Trustees), making governance simpler. In fact, the dual-share structure they have adopted now could facilitate this move later by allowing strategic owners to retain governance control through class A shares while transferring all class B shares into the trust. While the newly announced trust is an option for Milestone, details are still being ironed

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[1] For an overview of this announcement, refer to https://pm.gc.ca/en/news/news-releases/2022/04/12/supporting-small-businesses-and-creating-good-jobs. The quote from the insert is from this announcement.

out, so it's tough to know which road to take, although the benefits of employee ownership are obvious.

An Exciting Road Ahead

Pringle, Seaman, and Grover are excited about how employee ownership can contribute to future performance and longevity at Milestone, particularly when it comes to positive contributions for its employees and its broader corporate social responsibility commitments. However, the journey to employee ownership in Canada is not without its challenges. Every path forward comes with strengths and weaknesses, and the solution will have to fully address the unique situation at Milestone. As they expand employee ownership within the company, Pringle and his executive team will have a lot to consider.

Discussion Questions

1. As a first step towards employee ownership, Milestone has decided to offer a short-term equity option to key employees, to give them some time to think about the opportunity. Given the circumstances and goals of Milestone, as described in the case, what model of employee ownership should Milestone adopt over the longer term? Do you think the new Canadian Employee Ownership Trust can meet the company's objectives? Why or why not?

2. Pringle sees employee ownership and sustainability as deeply intertwined in the mission and values of the business. Can you think of specific ways in which employee ownership at Milestone can help the company improve social and environmental impacts without jeopardizing financial returns?

3. The vision of broad-based employee ownership at Milestone is for all owners to be employees, but not necessary that all employees be owners. What do you think about this distinction? What are the potential merits and demerits of this vision?

Appendix A – Common Models of Employee Ownership Relevant to this Case

ESPPs

With Employee Share Purchase Plans (ESPPs), employees are given the opportunity to purchase shares outright, usually through an automatic payroll deduction and often at a discounted rate to the market value. Employees are legal shareholders and typically have the general rights of any shareholder, including voting rights at annual meetings and electing Directors to the Board. They are also entitled to any dividends paid by the company and receive the residual value of the company if it is dissolved.

ESOPs and EOTs

With Employee Stock Ownership Plans (ESOPs)[2] and Employee Ownership Trusts (EOTs), a trustee is established to own shares and exercise voting rights on behalf of employees (although for significant transactions, like the sale of the company, voting rights may be passed through to employees). In this case, while individual employee-owners may not have the legal control rights of typical shareholders, they are sole beneficiaries of the trust and any distributions made by the company to the trust are allocated to all employees based on an equitable formula.

Employees are not usually required to make any contributions to the trust. Either the company grants shares to the trust for the benefit of employees, or the trust borrows money to purchase shares from the existing owners. In both cases, shares in the trust are notionally allocated to employees, and distributions are paid out proportional to these allocations. When an employee leaves the company, they are paid the notional value of the equity held in the trust.

Employee Stock Ownership Plans (ESOPs) are widely used in the United States, and Employee Ownership Trusts (EOTs) are widely used in the United Kingdom. Both models are supported by tax incentives, although ESOPs in the US are primarily used as retirement plans while EOTs in the UK have fewer restrictions.

Equity Options

A third common model is for a company to grant equity options. Options give employees the right, but not the obligation, to 'exercise' the option and purchase company shares at a specific price, called the 'strike price', on or before the expiry date of the option. Options plans may also include minimum 'vesting' periods that restrict exercise until a stipulated period has passed. When employees exercise these options, they become legal owners of company shares. Of course, it only makes sense to exercise options if the strike price is at or below the fair market value of shares. If the strike price remains above the market value of company shares at expiry, the options expire worthless. This feature of options incentivizes employees to improve the performance of the company and drive up share value. However, it should be noted that for private companies, where share value is not determined in publicly traded markets, the value of a company's shares can be difficult for employees to ascertain. Usually, the company periodically hires a valuation expert for this purpose.

[2] Unfortunately, the acronym ESOP is often used in Canada to refer to other ownership models that do not utilize a trust, including employee stock purchase plans and employee stock options plans. However, ESOP is widely recognized elsewhere as referring to the trust-based Employee Stock Ownership Plan that is used in the United States.

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