The Academy of Electrical Contracting

Paper Presented By Fellow
Brad Weir ('13)

Forty Years

an

ESOP

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Academy of Electrical Contracting * 1201 Pennsylvania Avenue, NW * Suite 1200 * Washington, DC 20004
202-991-6259 * dsj@necanet.org

What is an ESOP?

An Employee Stock Ownership Plan (ESOP) in the United States is a defined contribution plan, a form of retirement plan as defined by 4975(e)(7) of IRS codes, which became a qualified retirement plan in 1974. It is one of the methods of employee participation in corporate ownership.

In 1980 Kelso-Burnett Co., one of the oldest and largest electrical contractors in Chicago, transitioned from a closely held corporation to an ESOP. For the next twenty years Kelso-Burnett Co. was one of a very few number of contractors to operate under this form of ownership in the electrical industry. Over the last twenty years there has been a virtual explosion of electrical contracting firms who have transitioned into this form of ownership. For the most part, it has been a relatively seamless transition, but the future consequences will have an enormous impact on the shaping of the electrical industry in the years to come.

This paper is not intended to be a recipe on how to become an ESOP, nor is it intended to suggest that an ESOP option is superior to any other option that private ownership might entertain for themselves. The purpose of this paper is to share my personal experiences related to working under and running an ESOP company over the past forty years. There are numerous options on creating an ESOP and this should be done only with professional assistance. Also, whether or not an ESOP is a good option depends on the objectives of ownership and a full understanding not only of the financial concerns, but also the ramifications to the employee culture in the organization.

In the Beginning

The History of Kelso-Burnett Co. starts in 1908 with a very familiar story related to startups in electrical contracting. Two electricians working together decide to become partners and start up their own company. This partnership is successful, and the company flourishes even through the Great Depression. However, only one of the partners has an offspring involved in the company. So, in the 1940's Ollie Burnett Jr., who later became President of National NECA, took over sole ownership of the company. Another familiar scenario in the electrical industry took place as this second generation, Ollie Burnett Jr., grew the company to greater heights than ever before. However, with Ollie the method of family-owned succession came to an end. Ollie did not have any children involved in the company, so he needed to sell. Ollie found buyers in the form of five company employees. So, in 1950 the original family ownership switched to a new set of owners within the organization.

We now fast forward to 1979 and John McLaughlin, the last of the five owners, is now the majority owner and he, like Ollie Burnett Jr., does not have any children capable of taking over the business. John is ready to retire, but he is perplexed as to how to get his money out of the company. Buyers are scarce and they are all looking for a bargain. Liquidating the company is a distasteful option. What to do? John's Executive VP returns from an out-of-town business seminar and tells John of this new ownership option presented by one of the speakers called an "ESOP." In a short time, John decides this is a good way to get his money out of the company, so the company hires the right consultants and makes the transition in 1980 as an ESOP company.

Welcome to ESOP

At this point in time, I was a thirty-one-year-old foreman who had been with the company for six years starting as a first-year apprentice. I heard about the company becoming Employee owned, but it really didn't mean anything to me since I was a collective bargaining employee and only non-collective bargaining employees were included in the ESOP. Nothing changed and everything went exactly as it did before. It is important to note that in almost every IBEW Union ESOP firm the field employees are not participants of the ESOP. This makes ESOPs in the electrical contracting business rather unique in the larger ESOP universe. The concept that you are working 'for yourself' does not truly apply to a collective bargaining (union) employee.

As a foreman, I frequently interacted with office personnel who were now working under the ESOP structure. They would sometimes discuss employee ownership, but I really don't think they fully understood what that meant or how it worked, and they certainly didn't change any of the ways they went about doing their jobs. For the most part nothing had really changed. All the upper management people continued along doing the same job as always and the same held true for everyone that reported to them. For the next several years it continued to be business as usual.

In 1986 things began to change for me. I had been taking on more and more responsibilities of a Project Manager in the jobs I was running so the company decided to make it official and they transferred me to the Chicago Office as a Project Manager. Once in the office environment, I became more familiar with the idea of employee ownership and what it could mean for each of us personally. I definitely drank the 'Kool Aid' and truly believed I was very fortunate to be part of something quite special. However, this attitude was primarily shared only at our annual shareholders meeting and again at our ESOP meetings when our annual ESOP statements were distributed. After those meetings, we pretty much went about our business as we would under any type of ownership.

In 1994 I had moved into a management position and became more involved in the recruiting and hiring process for the Chicago office. Up until that time I was always under the assumption that as an ESOP company we would have a huge advantage over our competition when it came to hiring new employees. After all, who wouldn't embrace the opportunity to share in the company ownership at no cost! I was quite mistaken. During the interview process, I discovered that the only interest during the interview was how much the base salary amounted to. I also came to realize that our younger employees also shared this sentiment during end of year reviews and salary increase discussions. The bottom line was that younger employees hold the 'now' in much greater esteem than the 'future.' In retrospect this should not have been surprising. Many post Baby Boomers do not view their employment as a lifetime commitment. Pursuing alternative employment opportunities seems to be the norm rather than the exception. The concept of spending a career with one company didn't seem to resonate the same as it did with the previous generations.

The Revelation!

In 2001 the first remarkable ESOP occurrence took place in the company. As you recall, 2001 is infamous for other reasons besides the 9/11 terrorists' attacks. That was the same year as the Dot Com implosion and the Enron scandal. These events helped to push the economy into a recession and the Enron scandal was particularly disturbing because it involved mismanagement of employee 401K funds. This shook one of our long-term employees who decided that maybe now was the best time to leave while the going was good. Back in 2001 we paid retiring employees their entire ESOP balance in the same year they retired. This particular employee was an estimator who had been with the company when they became an ESOP in 1980. Twenty-one years later, in 2001, we loaded him into a limo after an evening of celebrating with a check in his hand for over a million dollars. That was when the concept of what an ESOP could do became a reality for all of us.

Since that day that story has been repeated many times over and many other employees have been added to the list of employees retiring as millionaires. Of course, there is no guarantee that all employees of ESOPs retire as millionaires.

The two key factors are length of tenure and the success of the company during that tenure. A third factor is the amount of compensation you receive each year during your tenure, but in the greater picture the first two are more important. After twenty years as an ESOP, employees began to actually see firsthand the potential of what an ESOP structure could mean for them.

Lessons Learned

One would think that recruiting and hiring would surely be a strong factor once these examples were shared with potential candidates. Unfortunately, they may have been of interest, but the driving factor remained how much the base salary offer on the table amounted to. On the other hand, current employee retention is very strong. The longer an employee remains at the company, the larger their ESOP statement becomes, and it grows exponentially each year all things being equal. As you near retirement it becomes a tug of war. Take the money and run or roll the dice and hang in there for more? ESOPs have the flexibility to address each scenario to suit the objectives of the company and the good of the employee.

Without a doubt, there are financial benefits for employees of ESOP companies and the company enjoys the benefits of employee retention as employees see their accounts continue to grow as long as the company remains successful. However, in my experience the greatest impact an ESOP has for a company is in Succession Planning. In the past several years it is hard not to pick up an industry magazine or attend an industry event without encountering the topic of Succession Planning. Kelso-Burnett Co. struggled with this issue until they became an ESOP in 1980. Since that time there have been five CEOs of the company including myself. The average tenure is about eight years; however, they are named as the next successor eight years before they become CEO by taking the title of Executive Vice President. The current CEO then mentors them so that they are fully ready to run the ship when the time comes. This process has been in place for the past forty years.

It is my opinion that the need for Succession Planning has been one of the main driving factors as to why we are seeing so many Electrical Contracting firms embrace the ESOP concept in recent years. For twenty years Kelso-Burnett Co. was the only ESOP Company in Federated Electrical Contractors (FEC) out of thirty-three companies. Today nearly a third are now ESOP companies with several others seriously considering that option. We are also seeing many firms within NECA making this transition including some of the largest firms in the industry.

Evolving Landscape

In my opening statement I mentioned that this transition would have an enormous impact on the shaping of the electrical industry. Why? It starts with succession planning and leadership at the top. ESOPs, by their nature, are bringing in the most successful and talented people within the organization and training them to be successful leaders. Not only that, but they are also developing a line of leadership right behind them ready to take the helm. ESOPs are dependent on their Board of Directors for oversight. Most ESOPs have strong Boards that are there to support and/or replace the CEO should a change be needed. In an ESOP company the CEO reports to the Board and serves at the Board's pleasure. Someone is always keeping an eye on things.

The Board watches over everything for the best interest of the company. In the majority of family-owned companies that I am familiar with in the industry, the Board of Directors is a formality and basically rubber stamps what management does, and regular meetings are virtually non-existent.

Another interesting observation of the companies that have become ESOPs is that all of them have grown and become more successful after becoming ESOPs. It could be just a coincidence, but I am inclined to credit the success to giving greater empowerment to talented people within the organization. The ESOP factor may not be strong in younger employees, but it is definitely evident in management. Everyone is conscious of what is happening throughout the company and each person is supporting one another for the greater success of all. Management seems to be progressive and aggressive, but not foolish within the market. Part of this may be due to the fact that the CEO has a shorter window at the top and needs to implement needed changes in a shorter time frame. Sometimes these changes are passed on to the next CEO for completion. That simply means that the new CEO has a running start.

The NECA Factor

The emergence of ESOP companies is already having an impact on NECA that is subtle and somewhat invisible to date. NECA has a long history of dealing with family-owned companies and establishing long term relationships with the patriarch of the family. They also get introduced to the next generation of company leadership at an early age and as a result have a number of long-standing relationships that carry on for decades. ESOP companies are quite different. The time duration for leading the company is much shorter so often the NECA relationship is somewhat stunted. Because of this, you will probably not see leaders of ESOP companies progressing through years of Chapter Presidencies, Governorships, or District VP terms. On the other hand, they will be talented leaders of very dynamic and successful companies that will need to identify their role in NECA or NECA's role in their company. NECA will need to explore how best to utilize their talents and at the same time show them what tools NECA can offer to improve their business.

Summary

Technology, renewable energies, carbon footprint, prefabrication, training, manpower shortages, and numerous other topics dominate the Electrical Industry headlines and rightfully so. Seldom, if ever, do you see an article about ESOPs. However, ESOPs seem to be tailored made for many firms in our industry and as a result we are seeing tremendous growth in this form of ownership. This may all quickly cease if the government should change the rules for ESOPs and do away with many of the tax advantages that they currently enjoy. Nonetheless, for the foreseeable future they are here to stay and will have an ever-increasing impact on the future of Electrical Contracting.

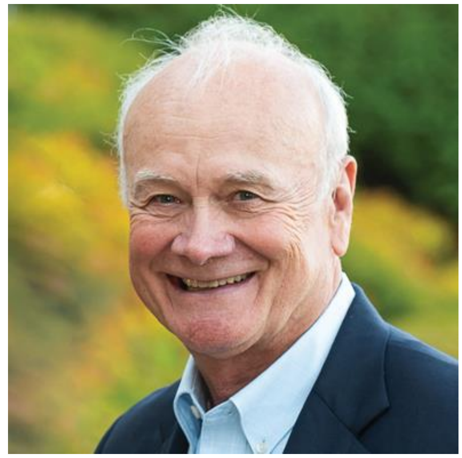
About Brad Weir

Brad Weir is the immediate past Chairman and Chief Executive Officer of Kelso-Burnett Co. Kelso-Burnett has been serving the city of Chicago's electrical needs since its inception in 1908. Kelso has been consistently ranked as one of the nation's largest specialty contractors by ENR magazine for the past thirty years. In 2005, Brad initiated the creation of Newport Industries which became the Holding Company for the various companies owned by Kelso-Burnett Co. including the parent K-B entity. This created a platform to enhance future growth in various markets.

Brad has been a member of the Kelso-Burnett family for the past forty-four years. A 1971 graduate of Augustana College, Brad came to Kelso-Burnett in 1974 when K-B purchased Systems Electric, his family's firm. Brad served his electrical apprenticeship in Lake County, Illinois. While working out of the Lake County Office, Brad taught several journeyman classes in advanced technologies including fire alarm, security and fiber optic cabling. Brad also served on the IBEW Executive Board for Local 150.

Brad moved to the Kelso-Burnett Chicago Office in 1986 and successfully managed several large-scale projects including NBC Tower. Brad was promoted to Vice President of Chicago Operations in 1995 where he created the telecommunications operations for the company, which is now KB Advanced Technologies, one of the largest Tele-data firms in the city.

Brad is a past Chairman of Federated Electrical Contractors. He also served as President and Governor for the Chicago & Cook County Chapter, NECA. Brad has also served as a judge over several years for ELECTRI International's 'Green Energy Challenge' where he graded student entries from major Universities from around the nation. He has also been a guest speaker at Purdue, Iowa State and Illinois Institute of Technology Universities promoting the electrical industry.



In recognition of Brad's service to the Electrical Industry, he was inducted into the Chicago Electrical Association's 'Hall of Fame,' which recognizes individuals from every aspect of the electrical industry including manufacturers, suppliers, engineers, distributors, contractors and inspectors in the Greater Chicago Area. Brad recently served on the Board of Directors for the Academy of Electrical Contractors. He is currently the Chairman of the Board of Aspire, which is the largest not for profit organization helping special needs children and adults in the greater Chicago area as well as southern Wisconsin.

Brad lives in Wadsworth, Illinois with his wife Jo Ann. They celebrated their 50th anniversary in February, 2021. They have two children, Jeff (45) and John (43). Brad and Jo Ann have six grandchildren ranging from 6 to 19 years old.

Brad retired at the end of 2017 and is now serving on the Board of Directors for two large Midwest Electrical contractors and has been doing some freelance consulting an East Coast investment firm and private consulting for a West Coast firm. Brad and Jo Ann enjoy traveling with their friends and spend as much time as possible in their second home in Door County, Wisconsin. Golfing and snowmobiling are some of Brad's favorite pastimes along with spending quality time with their six grandchildren.