THE ACADEMY OF ELECTRICAL CONTRACTING

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SUCCESSION MANAGEMENT

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Success seems to come easy to some contractors, but behind the scenes there is always a key management strategy or tool being fully utilized. For our company, Allan Electric of Totowa, NJ, the trick has been to delegate authority.

Allan Electric is now in its fiftieth year, but it took me the first 20 years to finally discover I couldn't do everything myself. In doing so, I became a better business manager and discovered the advantages of saying, "No."

By way of background, I was an aviation electrician during World War II, serving on the aircraft carrier Lexington. Following my discharge, I worked for several electrical contractors as a temporary apprentice – the lowest possible rating of any union electrician. After working for these people, I thought if they could be businessmen, so could I. In 1947 at the age of 20, I started Allan Electric with only my skill as an electrician and a weatherbeaten pickup truck as the company's assets. A year later I bought a new truck and before long had half a dozen men working for me. In 1952 I signed on with the IBEW and found the union to be extremely helpful as my business increased. The rest is history.

During those early years, I spent a lot of time on job sites, providing all areas of labor relations while my brother served as estimator, design engineer and buyer. However, as the company steadily grew into a multimillion dollar annual volume business, I still persisted in trying to do it all. I would involve myself in every facet of the operation, from supervising the loading of the trucks every morning to estimating and money management.

Then fate took a hand. In the mid-1960s, I had to leave my office for nearly one year to fight an illness. For that period of time, the company was without my everyday, in-depth involvement in all areas. I have to admit, rather sheepishly, the company did more than just survive during my absence. It thrived.

This episode taught me a valuable lesson. I was an electrician and could estimate a job, but there were certainly better estimators here. I could design, but there were a lot better designers. I have found that my people, given the opportunity to do a job, will do it to the best of their ability. In most cases, if they are not hampered by someone looking over their shoulders, they'll do it much better. Although most of the foremen and business agents were my friends, I no longer felt I had to visit job sites. The few times that I was out there was just to show the men I exist. My function was best served in directing the organization.

By 1973, sales volume was over the $10 million mark. Growth to such a figure requires good personnel who can assume responsibilities. I grew my own. Some of those who started with us in the early 1950s were with us until the 1990s. My field supervisors came to us as electricians, as did our executive vice president. My head estimator came to me working for us part time, for credit, while in high school. Our purchasing agent worked his way up from truck driver. My shop manager was also a truck driver. I had a personal commitment to allow these people to do their thing, to allow them to make mistakes, to recognize that we're all human. If they did make an error, I tried not to be overly critical.

These were aggressive people. They felt comfortable enough to come up to me and say, "Hey, Allan, I'd like to sell this change in this contract to our customer." You have to have confidence in people and let them make their way themselves.

Most of our people have taken every course NECA provides, and I made it a point to send all of our employees to the courses. My brother Richard took the original sales seminar NECA gave, back when he worked with me. He got so high on the approach, we went out and started selling electrical contracting. He would call people and tell them we would do the job for them just as well as anyone else, and for less. After he made the commitment to do these jobs, we would have to get them done! As a result, we became, as a company, very conscious of selling electrical contracting. Every one of our company's employees, including myself, became a salesman.

Selling has been one of my chief functions in recent years, ranging from large jobs sold by the top men to changes in work already contracted for, sold by estimators and field people. We don't oversee that much, nor do we run things on a boss-employee relationship. Was I going to tell the estimators – who've been doing their job for many years – how to estimate? Of course not. These people just required a little direction, not constant supervision.

In selling, everybody contributes. Our head engineer might have been on a job and have seen a better way of doing something. He didn't even have to come to me for permission to sell the customer on it. He would simply tell them that it may cost a bit more money, but it would be a better job.

A good deal of Allan Electric's work has come from the engineering department's ability to do a better job for prospective clients than had otherwise been planned by others. For instance, when an owner would get a price on doing a certain job from someone and it was way over his budget, we would take a look. Given a certain amount of latitude to deal in the design with both the engineer and the owner, we found that maybe we could do it for 20 percent less. Sometimes it was easy, but sometimes it was hard to get the engineer to accept our input. But this has been how we have gotten a major part of our work. Over the years we have built a reputation for saving money for owners by having accomplished it.

With the production segment in good hands and the benefit of my learning experience on returning from my illness, I now spent much of my time actively managing the company, mainly in a public relations capacity. I kept myself abreast of the industry and the economy. As the business grew, along with my recognizing the ability of my people to manage themselves, I got an opportunity to get an overview of the industry. I found my NECA membership and the association with other contractors invaluable in getting a feel for these trends.

If one particular facet of our business seemed to be going strong while another was fading, we got out of one and into another. Throughout the years we have completed a wide variety of electrical construction projects including world headquarters' facilities, hospitals, colleges and institutional buildings, chemical process plants, apartment complexes, urban renewal projects, hotels, shopping malls and the modernization of sewerage treatment plants. Our latest projects involve computerized highway traffic control and fiber optic installation for voice video and Internet distribution systems.

Allan Electric Company has always tried to be adaptable to ever-changing demands. One economic development we perceived in advance was the 1973-1974 recession. For the two years prior, we were really doing well, with approximately $12 million in annual business and a lot of people working for us. But I could see the economy gradually declining and a fall-off of 50 percent of our business. At that time, I decided to cut the office staff back by half, from 34 to 17 employees, and to sublet half our office space in our company-owned headquarters building. We cut a substantial number of our field employees as well.

After the recession – partially thanks to inflation – business picked up again but we didn't expand. Instead, we tried to do more with what we had. That meant turning down job offers that were beyond our capabilities. One of my favorite sayings is, "We never lost money on a job we didn't get". The bottom line is, we've always covered our overhead and made a profit. It has been my job to monitor the costs, to see that we were expanding our business into different areas, to look at emerging trends in the industry – and to say "no" when it is appropriate.

The idea of succession planning had not been anything I had thought about prior to our downsizing in 1973, yet it was inevitable. At that time, my brother, who was a major contributor to our success, left the company. As a result, I was required to depend on others to carry out his responsibilities. Although I was many years away from retirement, I had to seriously address the subject of succession.

I then reviewed the possibility with my controller at the time, a man considerably younger than I, who had a desire to buy the company over a period of years. His offer was not feasible, as it depended on the profits of the company, and I was concerned that he did not have the overall ability to manage the company. Consequently, my first attempt at succession failed.

Later during the 1980s, I tried to interest a large public company in a buyout. After presenting my proposal to its directors, nothing resulted. Having gone through this experience, I attended a program on how to plan for continuity presented by a management consulting firm. Following its guidelines, I attempted to market the company through a professional organization that specialized in mergers and acquisitions. This too was fruitless.

From this point, I worked together with my executive vice president toward building the company to a higher volume and diligently bringing our debt down to zero. We succeeded in our growth efforts to become the thirtieth largest electrical contracting firm in the U.S. in 1986, thereby making our company a desirable target for acquisition. As a result, we received a very attractive offer, whereby half the payment would be made upfront and the remainder was to be paid out over the ensuing five years. The only problem was that my continued presence would be required over this five-year period, during which I would have very little control over business matters. This arrangement made me quite uncomfortable and raised concerns for the security of my long-time employees. To be perfectly honest, I was not ready to relinquish the reins just yet and turned down the offer. Looking back, I feel it was a good decision.

After this experience, in 1988 my then office manager made a proposal for a long-term buyout over a ten-year period, projecting aggressive growth. This buyout agreement never materialized; however, the aggressive growth did continue.

In 1991 I attempted to help my executive vice president's son toward a long-term buyout, considering the combined management expertise of father and son. Unfortunately, we were not able to come to terms. Shortly thereafter, I pursued a group of my employees to form a coalition aimed at taking over the company. This was also not a feasible option as the payout period would be excessively long.

By 1993, we had become a very high-volume company and I was still at the helm in spite of my aforementioned attempts to entrust others with leadership responsibilities. In my frustration, I solicited the services of a search organization to perhaps find someone outside of the company. They put me in touch with a venture capital group.

My first experience with the venture capitalists was frightening. Their plan was to spur volume growth, but in so doing, they would have created such an uncontrollable situation that we could suffer substantial capital losses and possibly jeopardize our stability. Through my subsequent meetings with them, I was introduced to a young man who understood my concerns. In reviewing his credentials, I found him to be highly capable with regard to formal education and experience in the electrical contracting industry, both positive and negative. His impressive resume included a B.S. in engineering as well as M.E. and M.B.A. degrees. He was a professional engineer licensed in New York, New Jersey, Pennsylvania and Florida, and has held numerous offices in trade associations throughout the years. Most importantly, our interests in the future of the Allan Electric Company were mutual.

I drafted a succession plan, executed in 1995 to run for a seven-year period. At this time, it has completed its first year successfully, and my projection is that this trend will continue. The importance of this agreement is to try to be realistic in both the financial arrangement and timing. It may be possible that after seven years the total agreement will not be accomplished, but we are open to extending the period.

When this young man first came on board, he desired to start the process towards ownership immediately. However, with survival of the company at stake, I naturally had some reservations about him putting up his life's savings in this venture before he was fully acclimated to our business. I countered his offer with a one-year employment contract, during which he was to work closely with me. Together, we would integrate our resources and strategies for a successful transition. At the end of the trial period, if things were not working out well, he would be free to opt out of the deal and be paid an agreed-upon salary.

Some difficult situations did arise during the course of that year. He approached me with a plan to put the company back on track through extensive downsizing. This meant retiring some long-term employees and giving him full control to make decisions. The only other alternative was to dissolve the company. As hard as this was for me, I trusted him and did not stand in his way.

Early in 1996, we accomplished the successful turnaround of the company, making all the necessary changes, including decreasing business volume and cutting office staff from 50 to 26, and the number of electricians from 300 to around 160. We are presently on a level course and have regained our financial strength. With my confidence in this young man's leadership, I feel we are totally under control at this time. I am approaching the age of 70 and the agreement is written to phase me out of company management completely by age 75. I project smooth sailing from now on, but as they say, "Man plans and God laughs." We'll see how it goes.

Allan Shapiro of Allan Electric Company, Inc. in Totowa, NJ, first became affiliated with NECA in 1963 and has served in every capacity up to Vice President of NECA's District One from 1978 to 1982. For more than 30 years, he has been an active member of the Northern New Jersey Chapter. He is presently semi-retired, acting in an advisory capacity during the ownership succession of his company, which is expected to be completed by the year 2002.