

THE ACADEMY OF ELECTRICAL CONTRACTING

**Paper Presented by
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PEER GROUPS IN THE ELECTRICAL CONTRACTING INDUSTRY

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“As you add people to an organization, you can multiply the potential problems by the square.”

Although you will not find this theorem in any management or educational text book, I personally feel that anyone who has managed any company would agree that it is a mathematical theorem that could be proven.

Like many CEO's in the Electrical Contracting business, I did not have the chance to have a formal education before I was provided the opportunity to be responsible for serious participation in the management process.

In August 1959, at the age of 21, I started my career with Carl T. Madsen, Inc., being trained as an estimator. Through a series of events – buyouts, stock acquisitions, death, changes in personnel – I found myself being elected president of our company in June of 1970 at age 32. Because of ill health of my predecessor, I had been running the company for three years prior to this election. With no formal training, I was truly struggling to learn as much as I could about administrative management as fast as I could. NECA offered some wonderful courses. The NECA Executive Study Program was a great help. Local college courses were of immense help, but all of this was either text book or teachings by people like FMI, American Management Association, and Dun and Bradstreet. Although I certainly learned something, these instructors were not from the “fox-holes.” Very few of the instructors ever had to meet a payroll, pay accounts payable, negotiate a labor agreement, close a sale with a customer, negotiate a claim, or many of the other things I found myself right in the midst of on a daily basis – *and without the benefit of first hand knowledge training*. Needless to say, I and our company were struggling. This, coupled with the fact that my predecessor had passed away and took with him the principal financial statement, put a strain on my relationship with our bank and bonding company. Plus, I was the only stockholder.

I needed help, and lots of it.

Immediately, I started surrounding myself with industry people. I appointed talented and experienced people to our Board of Directors. I sold

stock to valued team players. I sought input wherever I could find a listening ear. We struggled – I struggled – my family didn't really see much of me, *but we survived and we made it!*

As I prepare myself for retirement, I am happy to report that I don't have to hand off the stewardship of this business in the manner I received it. **THERE IS A BETTER WAY...AND WE HAVE FOUND IT AND AVOIDED OURSELVES OF ITS USE.**

Our firm has continued on its steady growth pattern. Multiple company divisions, measured and planned growth, as well as wise use of the profits realized helped to accommodate that growth. All along we nurtured our relationships with our banking and bonding partners. It paid off in real dividends, and continues to be the case, even today.

In the spring of 1992 we received a call from a completely unknown electrical contractor from the east coast who wanted to talk to me about considering joining a nationwide **Roundtable PEER Group** that was being formed.

It seems that two sons of two major firms were attending a Young Men's Business forum and got to talking about a Mechanical Contractor PEER Group that was functioning. These two young men wondered if that might be a viable and doable consideration for each of their family owned businesses. They bounced the idea off of their fathers and “the baby was born.”

Contacts with NECA National offices produced some names of firms across our great nation that might be candidates for such a program. The criteria chosen was simple: (1) each participant must be a member of NECA and be an IBEW employing contractor; (2) each company must be doing a volume of business in excess of \$10 million annual sales; and (3) the firms chosen must not have an occasion to compete with one another. Ten firms meeting this model were contacted and an organizational meeting was called.

The venue chosen to conduct this initial meeting was in the midwest town where one of the principals of the MCA Peer Group founders, who had agreed to be a mentor for us, was located. Nine firms of our selected ten attended and we explored the process utilized by these mechanical

contractors, and we all soon realized this program was very doable and advantageous and offered tremendous benefits to all.

I liken the exchange of information at this meeting to that of a "courtship." We all recognized very early that we were going to be asked to bear our souls – business, financial, ownership, banking, bonding, personal, personnel, salary structures, pension plans, bonusing, reward systems, business marketing practices, succession plans, and many other such normally very closely held secrets. Some people were very uncomfortable with this and rightfully so. We were a diverse group. The sizes of the participating companies varied significantly, i.e., from \$10.0 million annual sales to \$135.0 million. Many needed to talk with other partners/owners. Others saw it as an opportunity to share and benefit. This courtship took almost nine months, wherein the engagement happened and the wedding plans were forthcoming.

Our first efforts were a real investment of time by each company wherein we developed a manual on each of our companies detailing the entire story of our company and how and with whom we did our business. It started with a history and included a detailed explanation of all aspects of our methods and procedures for operating each of our businesses. We met three times annually to go over these manuals, and they were two and one-half years in the development. Every participating company received a copy of the manual for each of the other companies. Each of the meetings was held at the place of business of one of our PEER Group members, which numbered nine with one player electing not to participate. Each member paid his own costs associated with the attendance. The host would provide a tour of his facility wherein we met many of his employees and we received hands on data on his processes and procedures. The hosts also usually provided us with an evening of socializing at a nice local facility. Through this process, barriers broke down, obstacles were removed, friendships nurtured and true comradery resulted. Attendees from each firm numbered between two and three and always included the President and/or CEO and usually an Executive Vice-President – the true decision makers in each firm.

As an aside, I will never forget in our very first formation visit. We toured the warehouse of one of our electrical contractors, who with great pride displayed his copper wire and conduit inventory and was truly proud of the fact that he had over \$1.0 million in value. He indicated he did this so that he could parallel and cut wire runs to length, thereby saving significant time in the field. Some of us asked him if he had ever contacted his local wholesalers to see if they would do this for him and really at no cost. He had not, but did so immediately, and today his inventory has a substantially lesser value and his cash position is greatly improved.

After the manuals were completed, the next step was to start **"a critique review process."**

It is during this process that one company would be chosen for a critique, and the rest of us would fly into that person's domain and we would start a critique, mainly to see if the methods indicated in that company's manual were actually those in use on a daily operational basis.

This process involves breaking up the visiting PEER Group people into two teams, each with a Spokesman and a Scribe. One of the visiting firms is chosen to be the overall Lead Captain and Scribe, and they arrive a day early to coordinate the critique with the principals of the firm being critiqued. The business receiving the critique would break their employees into actual business groups: i.e., Accounting; Management Committee; Marketing; Project Management; Foreman; Estimating; Purchasing; Warehouseman and Delivery; Maintenance; and any other applicable group(s). Each of these groups would be interviewed for one hour by each of the visiting teams. Questions were developed both by management of the company being critiqued and by the Team Captains and Scribes. The strengths and weaknesses of each business group were noted by the question presenters. This process takes 1-1/2 business days of solid interviewing. The last half of the second day finds the visiting critiquing teams meeting behind closed doors without any participation from the employees or management people of the firm receiving the critique, wherein all of the strengths and weaknesses are discussed openly and recorded on tape, and recommendations are

made for each and every business group interviewed. This process usually goes well into the late evening with food being brought in so the process goes on uninterrupted.

The following morning the principals of the firm are brought into a closed room, and the Captain and the Scribe, in the presence of all the visiting firms, make a presentation of the findings and the principals are not afforded any chance to dispute or offer excuses for what was found. Clarification questions about the recommendations are permitted. A complete set of all working papers and two copies of the actual sound recordings are left with the principals of the critiqued firm.

Some of the information to be delivered may be brutal – but it is the consensus reached by the critiquing team. We experienced one participating firm actually deciding to no longer continue as a player after receiving his critique message.

The knowledge and experience of the people conducting the interviews and making the recommendations is something money could never buy. This is management consulting that is not available in the marketplace. Best of all, the charge for it is very minimal, but the depth of the information goes on and on. These PEERS are now some of my best friends. It is likened to having many consultants available to you at any time for the cost of a phone call. They know your firm, they know most of your people, they know your processes, they know your relationships with your other team players, so their counsel is truly meaningful, and they are very willing to provide you with the benefit of their personal years of experience. And believe me, they are not bashful about telling you the way they see it. They don't have to sell you on anything. They can say it as they read it, and they do just that.

In our own case, a succession plan that was in place and was progressing was scrapped after our company's critique. The message came through loud and clear. The plan was not working and would not work. This was a very bitter message to digest, but it was true, it was reality, and we were not maximizing our efficiency and/or our productivity as a result. We bit the bullet, made the reversal, and are now about to retry succession, but with a much better plan overall.

The benefits of being a part of such a PEER Group are numerous and continue to surface.

First, we have formed subgroups: Service; Accounting; Marketing; Low Energy Systems;

Purchasing; and Safety. Our designated individuals within each of our firms get together at least annually to discuss matters in their specific areas of our business operations and come home with ideas that are to our real benefit.

Next, we are finding that networking of marketing is developing into a good thing. Many of us have customers that travel or are national companies. They want to be sure they are getting treated fairly in these other parts of the country. We now have a scattering of PEERS that we can refer one another to. Marriage ventures and joint ventures are happening on a regular basis and to the benefit of all.

Purchasing power amongst this many firms also has some benefit, particularly with tools.

Sharing of expertise is also happening. On a personal note, our firm received an award for a job at \$2.45 million that had a very short performance time, and eventually ended up at \$7.7 million in total sales. We were directed into considerable escalation, almost impossible time frame performance, very large crews with shifting, and all happening so fast we were very hard pressed to just keep up. A call to one of our PEER Group firms asking for advice resulted in our being sent a project management and claims expert who spent enough time with our staff to educate them on the things we needed to be prepared for, and how to accomplish the documentation necessary to protect our interests and position. Here again, expertise available on a minutes notice for a situation that was foreign to us, but which resulted in our turning a potential long period claim situation into a very profitable experience.

We now have implemented a summer retreat that we use for future planning for our PEER Group as well as a social outing to include our wives and/or significant others. This event gives an opportunity to look back on the immediate past, and reflect upon the successes and/or things we need to enhance.

Maybe this process is not for everyone. I can honestly assure you that it is for our company. The benefits we have derived from the experience could not be obtained otherwise, in my opinion. Our entire company has materially benefited from this ongoing experience. The service organization in our company has materially increased its size and capacity, and this has been possible by taking the successes of others and applying them to our own domain. This is true of our new accounting system. Having the opportunity to share with others who had gone

through a complete system change to the same operating system, was very beneficial and enlightening.

Without question, I am very high on the system. It works. Quite frankly, I do not care about how many people we add to our organization because, first of all, there won't be the multiplying of "*the potential problems by the square*," simply because the addition will be well thought out, the need qualified and quantified, and it will be an "opportunity" – not a problem.

Joe R. Devish, President and CEO of Carl T. Madsen, Inc., Tacoma, Washington, first became involved with NECA 1961. The company was a founding member of the Southwest Washington Chapter in 1957. He served on the NECA National Research and Education Committee (now Management Development Committee), and as National Vice-President of District VI from 1976 to 1981. He has worked with the NECA Executive Study Program as a participant, promoter and evaluator. He also served on the Council on Industrial Relations from 1978 to 1979, and is currently serving another term.