

THE ACADEMY OF ELECTRICAL CONTRACTING

Paper presented by

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The Philosophy of Perpetuating a Solely Owned Business
or
The Story of Bergelectric

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I originally prepared this paper for delivery in the third person, but it is such a personal story that I decided it should be told in the first person. I beg your indulgence and I assure you this is not an ego trip.

I have always felt that the quality of life style and the customs of the business world are one and inseparable. One cannot be a shark in the business community and a loving compassionate sensitive human being in his home environment. The two life styles are one. For if they are not, one or the other must suffer. Schizophrenia, in whatever form or degree, takes its toll.

I grew up in a somewhat less than affluent home in the snow backed hills of Canada and Montana in a family which observed the simple truths and the common decencies of love and understanding. I saw my father and my mother treat others as they treated us. I do not intend to be maudlin but these examples were further reinforced for me when I met my wife Bess and her family.

But, long before my marriage, I began learning the electrical business from my father, who was an electrician. I served my apprenticeship in the trade and became a journeyman wireman, but my dad insisted that I also get a college education for which he provided most of the funds. And so, in due course, I was graduated from Case Western University with a Bachelor of Science degree in Electrical Engineering.

It became apparent to me even then, mainly because my father was doing some contracting, that a successful electrical contractor (and that was what my father was preparing me to be) must possess many qualifications and that he must be suited by temperament to be a contractor. It would also help if he was a good electrician, had experience as a foreman and a general foreman. He would be expected to be an accountant, a lawyer, a banker, a bill collector, a contract negotiator, a salesman, a psychiatrist, but even more than these, he must understand people and be a humanist.

I knew that by hard work alone, the law of averages could provide a contractor with his share of business and an average profit, but I wanted to do better. I wanted to build a financially stable business so that I would be able to have time to devote to the community, to my industry and to my family. I wanted to beat the law of averages.

To do this I concluded that I must know everything possible about the business and, secondly, that I must surround myself with people who could accept responsibility and eventually assume the authority for the management of the business and for me to create the esprit-de-corps that promotes compatibility.

This philosophy, however, did not guarantee my infallibility. When I finally made the decision to go into the contracting business, at the end of the depression, after World War II, I picked the wrong associate. He had much successful business experience but not in electrical contracting, had

adequate funds to finance a large operation but by temperament could never be a contractor nor did he have the patience to learn. We parted company. He took all his money and left me with an embryo business heavily in debt. Even though I vowed that I would never go into a business without adequate capital - here I was. My banker and my suppliers saw me through although they had no justification to extend credit to me - only my personal promise that I would repay.

A boyhood friend, an electrician in Cleveland, Ohio accepted my invitation to join me in the business. He packed his family, his tools and his small savings account into his car and came to Los Angeles. His small investment and his involvement in the business helped to reassure the creditors and we were compatible.

The business began to grow, not meteorically but with a steady pattern of improvement on a solid base and continued to grow during the next ten years, from 1946 to 1956.

It was now obvious that because of the unimpeachable reputation the company had established that it would continue this growth - but to do so successfully required the expansion of its management capability.

I first attempted to recruit from among the electrical engineering graduates of the local colleges but they could not see the potential in contracting and chose rather the more glamorous fields of space exploration and electronics.

So I decided to recruit from within our own field organization. As a product of an apprenticeship program myself and recognizing its value, I insisted that the company always employ the maximum number of apprentices possible. Their training was closely supervised and, consequently, many of them received recognition as the outstanding apprentices in their various classes. The company also rewarded these young men by urging them to assume the added responsibility of moving up to foremen and general foremen. It was from this group that I recruited. Those who were selected were taught estimating, purchasing, project management and sales.

Within a period of two years, five young men were added to the management staff of the company to share with me all the benefits available. I also wanted to provide the kind of climate in which everyone wanted to work and wanted to remain with the company and not seek "greener pastures" elsewhere. I worked at providing the same stimulation for the men in the field - I wanted them to want to work for me as well.

To insure this, the company paid generous salaries, distributed generous year-end bonuses, provided group life insurance, major medical and hospitalization plans, extended disability coverage and, generally, good working conditions.

I was in the process of exploring the costs and benefits of a defined income plan (pension) when my associate of 18 years died.

By this time he had acquired 49% of the stock in the company, while I held 51%. I had learned from my first experience with an associate that the difference between 51% and 49% is 100%.

The company retired the stock of my associate in accordance with the buy-sell agreement, which was only partially funded with life insurance and again I became the sole owner of the company.

I was now 56 years old, owned a successful business with a financial statement that had all the proper ratios, was active in the community, in civic, service and charitable organizations and had maintained a high level activity in the local N. E. C. A. chapter and in the district and had five young men, each of them young enough to be my son, anxious and eager to become part of the management of the company.

I knew that to fit each of these men into his most productive niche in the company would require my personal attention. This I did by withdrawing from all extracurricular activities for one full year.

I remained the president and created the positions of executive vice president, two vice presidents and a treasurer. There was spirited competition for these titles as well as for the various management positions. Each understood that his job with the company would depend on his performance and not his title.

Once all this was jelled, I felt the time had come when I should begin to reduce my dependence on the business, that I should draw down a portion of my equity and also find a way to perpetuate the business so that my estate could derive the maximum benefits from my life long efforts.

Here is what I decided to do:

1. Draw a buy-sell agreement requiring the company to repurchase my stock at death, to be partially funded with life insurance and providing for a ten year pay out.
2. Establish a pension plan (defined income) I. R. S. approved for all employees not covered by a union plan.
3. Purchase insurance to cover the key employees.

These moves did much for the morale of the company but they didn't satisfy two key elements - my equity would not be reduced and the employees would not be acquiring any.

Many alternatives to accomplish this were recommended, but the one that appealed to me and made sense to the employees was for them to buy the business from me. They convinced me that I could derive more benefits via this route than if the company went public, merged or if I sold to outsiders.

I was warned that this plan of selling stock to the employees would not work, that friction would develop between the employees, that some would resign and the company would be required to redeem their stock.

However, the "hope for reward" outweighed the "fear of consequence" and I proceeded to distribute my stock on a selected basis to selected employees.

The first distribution of 5% (1% to each of the five men) was an outright gift. All stock distributed subsequently was paid for by the acquiring stockholders. They paid approximately twice book value for the stock from funds received from the company as a special bonus. The special bonus included additional funds over and above the amount needed to purchase the stock for the payment of their personal income taxes.

In the eleven years since the program began, I made ten distributions reducing my holdings to 57%. It is interesting to note that all the stock had substantially appreciated and that my 57% is valued at four times the initial total valuation of the company. I received over a million dollars after taxes during this period and this draw-down had no adverse effect on the company or the stockholders. The company continued to prosper, the salaries of all employees including my own continued to increase and there were funds available for year-end bonuses. During this period the company contributed over \$500,000 to the pension fund, \$400,000 being applied to my account.

The buy-sell agreement between the stockholders and the company required the company to repurchase the stock of a terminating stockholder at book value with a ten year pay out at 6%. In the event of death, the repurchase amount was twice book value and this was 100% funded with life insurance.

After the seventh distribution two stockholder employees resigned, formed a partnership and became electrical contractors. The company repurchased their stock in accordance with the terms of the buy-sell agreement.

Other employees were recruited from the field to fill the vacancies and they, too, were included in subsequent stock distributions.

My buy-sell agreement differs from that of the other stockholders in that it has no terminating clause. On my death, the company would repurchase my stock at approximately 1.5 million dollars, 1 million being funded with cash value life insurance and the balance to be paid over ten years at 6% interest.

It is a good plan, it is working and the second tier stockholders are awaiting the time when they, too, can begin to draw down some equity. A concern for the present is the elimination of the one-half million dollar gap in the payout of my estate. Hopefully, this can be accomplished out of the distribution of the next 6% of my stock. I. R. S. attacked our high salary structure claiming that the bonuses were in effect stock dividends. The challenges failed because the bonuses I received were not proportionate to my stockholdings. In fact, they were very small by comparison with the other bonuses and, therefore, could not be called dividends. The base salaries of the key employees were never questioned.

Yes, there was competition among the new men for the top positions; perhaps that's why I lost two employees. Would they have left without the beginning capital and the credit that a note receivable from Bergelectric provided? I think they would have.

Could I have reached the same result another way? I think not. The selectivity I had in picking the stockholders, in providing them with a very real meaningful financial interest in the company and the realization that they would eventually inherit the business, a going business, without the risk of losing personal savings created devoted, loyal associates and friends.

As for me, it has been a fascinating adventure. I serve as the counter balance to resolve differences and get involved in planning for the future. I have been able to remove myself from much of the daily activity of delegating

complete authority, and that was one of my most difficult tasks. The other was to choose from the men the heir apparent to the Presidency. I succeeded without destroying the incentive of the others.

I assure you that the Bergelectric Corporation has truly been perpetuated.

The quality of lifestyle and the customs of the business world are one and inseparable. At least for me. I have seen some of my confreres, and I say this with all humility, I have seen them in the throes of business success and the taste of ashes in their mouths because of non-fulfillment in their personal lives. I am not any wiser nor brighter than my confreres. But I do consider myself fortunate that I was born into the right family, married the right girl, and after a few false starts in the business world made the right choices - most of the time.