

The Stempel Plan

Introduction

This model is the product of literally generations of direct and personal experience with the business side of the construction industry -- including much experience with the many government programs said to encourage the growth and development of minority, women and other "disadvantaged" business enterprises (M/W/DBEs).

The most obvious and controversial of these programs are the procurement programs that work their will on the award of government contracts and subcontracts. Much has already been said about these programs -- and more will surely be said in the future. For now, it is enough to observe that these programs have not had a significant and lasting impact on the vast majority of the construction firms that they purport to serve. Relatively few of the targeted firms have become successful and effective competitors, capable of making their own way in an open market. It is true that some of the targeted firms have become competitive but the number pales in comparison to the great volume of work that federal, state and local programs have set aside.

As already acknowledged, Mr. Ron Stempel is the original source of much of what this model includes. When Mr. Stempel began researching the matter for the Port of Portland, he found that the government contracting programs were enriching a few big firms but having little if any impact on the vast majority of M/W/DBEs. The competitive base of such firms remained small. And their turnover rate was high.

Mr. Stempel also found fault with the government's traditional approach to management, accounting and other professional support services. He found that M/W/DBEs were accessing these services randomly. He found that the government had excessively limited the amount of help that such firms could get. And he found that the government had made no effort to measure the effectiveness of the services that it could provide.

AGC intends this model to respond to all of these problems. The association intends the model to help develop a broad base of emerging business enterprises that can survive and even thrive in a competitive environment. Some of the firms may perform public work. Others may prefer private work. Whatever the case, AGC hopes to help these firms become a vibrant part of the industry that AGC remains proud to represent.

More immediately, the association hopes to make professional support services far more effective instruments of emerging business development. Experienced hands should guide the emerging firms that need these services. And the services themselves should be *readily* available -- when needed, and not two weeks later. AGC also wants to measure the services' impact, focusing more attention on the important business variables, including but not limited to the net worth and profitability of emerging business enterprises.

Growing and developing a new construction firm is not a job for someone lacking the personal experience and business acumen to run a successful construction company. Nor is it inexpensive. Nor should the industry settle for subjective, abstract or otherwise uncertain results.

Over the course of time, each generation of construction men and women has assumed the responsibility for preparing its successor. Indeed, in the construction industry, this has long been the "natural order" of things. It has been woven into the industry's culture and it remains one of the many things that makes the industry so attractive. AGC intends to respect this long tradition. The association believes that many of the industry's well-established firms are interested, willing and able to share their accumulated business acumen.

Mission and Goals

The mission of the model program is to build a broad base of emerging business enterprises capable of performing high quality construction at competitive prices.

The program's immediate goals are two. The first is to increase the volume of work that emerging business enterprises are capable of winning -- and profitably performing -- in open competition. The second is to broaden the base of their activity, increasing the number and long-term stability of such firms, and spreading their activity throughout the building, highway, heavy, industrial and utility sectors of the industry.

Measurable Objectives

The measurable objectives of the model program are four. The first is a higher than average survival rate for the program's protégés. The second is continuous improvement in the financial strength and bonding capacity of those firms. The third is consistent success in meeting the objectives included in each protégé's individual business plan. The fourth is a high rate of successful transition out of the program in one to three years.

As it accumulates data on the performance of its protégés, the program should also define and apply other appropriate benchmarks.

And in at least its first few years, the program should also seek a steady increase in the number of mentors and protégés that it brings together.

Means and Methods

To succeed, the program must be well rooted in the local business community, for that is where emerging business enterprises will find the resources and other assistance they need to overcome educational and other impediments to their success. Those most deeply involved in the program will be the program sponsor and the well-established contractors (whether prime contractors or subcontractors) that agree to provide mentors. The program sponsor must also network with surety companies, financial institutions, and accountants and other professionals who can put emerging business enterprises on the road to success. If possible, the sponsor should also try to involve large and prestigious owners in the local business community. Such owners can help create the kind of climate in which everyone is enthusiastic about working together. They can also help defray the cost of the program.

One of the program sponsor's key responsibilities is to structure the interaction among the many players, and particularly between mentors and their protégés. The working relationships among the players must be flexible and yet rigid enough to produce results. Once strong, the relationships between mentors and their protégés' will empower the latter to make effective use of a service provider, and eventually, to build their own relationships with the other players.

This model requires two mentors for each protégé. It contemplates at least monthly meetings among the three. At these regularly scheduled meetings, mentors and their protégés should work through a written agenda. At the heart of that agenda should lie the protégé's business plan. Together, mentors and their protégés should identify the steps necessary to implement that plan, and should agree on a set of specific actions for the protégé to take by the time of the next regular meeting. Mentors and their protégés should also review and discuss the latter's recent performance, and see how it compares with earlier decisions and the protégé's overall business plan.

At the outset, the program sponsor should retain one or more firms to provide management, accounting and other professional support services to the protégés. The action plans that emerge from the monthly meetings between mentors and their protégés are very likely to require the latter to make use of such support services.

Unlike programs that have offered such services in the past, this program should help emerging business enterprises make effective use of a professional service provider. The experience and business acumen of well-established firms will guide the protégés as they move forward. Past experience reveals that random and unguided access to service providers will not get the job done. Emerging business enterprises have to relate their actions to sound business plans.

The model program does not forbid mentors to subcontract work to their protégés, or to form joint ventures with the latter. Mentors and protégés may, however, find that such business relationships cause conflicts of interest. Mentors will have an obligation to give their best business advice to their protégés, wherever the latter may be working, and whatever the potential impact on the mentors themselves.

If successful, the program will produce a broad base of high quality companies. The program will seek steady improvements in the protégés' business practices in the belief that such improvement will make these companies into effective competitors for any and all of the work in the relevant segment of the market. A program should expect its protégés to achieve higher than average survival rates, to achieve their individual objectives for growth and profitability, and to achieve long-term stability.

Key Players and Their Individual Roles

There will be many important players. Each one will play a different role and bear a different responsibility. Following is a brief description of the key players and their individual roles.

Program Sponsor

The sponsor may be a public agency, a private trade association or any other organization with the resources and commitment to make the program work. In some cases, a public-private partnership may be the most promising approach.

Whatever the case, the sponsor must be able to play its key role. The sponsor is the program organizer and coordinator, and it must bear the responsibility for the program's administration. The sponsor's duties should include:

- Advertising and promoting the program;
- Organizing related business events;
- Identifying potential mentors;
- Identifying potential protégés;
- Informing and reminding mentors and protégés of their roles and responsibilities;
- Scheduling all meetings;
- Providing or contracting for all needed meeting space;
- Collecting status reports;
- Maintaining program records;
- Contracting for the management, accounting and other professional services that protégés will need; and
- Identifying the necessary sources of program funding.

The program sponsor should solicit and enlist the help of well-established companies, trade associations, private owners and even public agencies in its critical efforts to identify potential mentors and protégés, and the funding that the program will require. Depending on the circumstances, the sponsor may seek the financial support of government agencies, private owners, private foundations and/or others. The sponsor may also request the well-established contractors and/or other members of the local business community to provide in-kind assistance.

The sponsor should also organize and facilitate the meetings of an advisory board. In conjunction with that board, the sponsor will have to select and assign mentors and protégés, and evaluate the management, accounting and other professional services that the program is providing.

The sponsor should also regulate access to those services. For sound fiscal reasons, the sponsor should require mentors and their protégés to seek and obtain the sponsor's prior approval of such assistance.

Advisory Board

The advisory board should include representatives of the program sponsor, the well-established and emerging firms in the local construction industry, and the financial and surety companies that serve the local business community. If appropriate and helpful, the program sponsor could also give seats to large and prestigious owners and possibly the providers of other important services.

The size of the board, and number of individuals representing each group, should reflect the local circumstances that give rise to the mentor-protégé program. Most if not all of the members of the board should, however, be familiar with the technical aspects of construction and/or the management of construction firms.

Like a corporate board of directors, the advisory board should guide and assist the sponsor but not assume the sponsor's administrative or other responsibilities. To the extent the sponsor finds it helpful, the board should (1) recommend program policy, (2) participate in the selection and assignment of mentors and protégés, and/or (3) help select the program's professional service provider.

The board should also voice its support for the mentor-protégé program throughout the local business community.

Professional Service Provider

The professional service provider should be a major source of support for protégés. It may be one company or several. Under contract with the program sponsor, it should make management, accounting and other professional services available to the protégés, helping them hit their incremental targets for improvement.

The professional service provider should also play an educational role. In addition to the immediate assistance that protégés may need, the professional service provider should transfer its knowledge and understanding of the business issues that the protégés face, enabling them to make permanent changes in the way they conduct their affairs.

The services provided to any one firm will depend on its particular needs. Mentors and protégés will jointly identify those needs during their regular meetings. If effective, the mentoring process will help the protégés make the most intelligent and effective use of the professional service provider -- and generally encourage the sound business practices that increase a firm's potential for sustainable growth.

The professional service provider should participate in the regular meetings between mentors and their protégés. It should also respond to any *ad hoc* requests for assistance. It should promptly return telephone calls and promptly respond to any other requests for meetings or other assistance.

The major categories of professional service should include the following:

- General business management;
- Financial administration;
- Insurance and bonding; and
- Specific seminars and other educational programs that mentors and their protégés may identify.

For the benefit of future program sponsors, the first appendix is a sample request for proposals to provide these services.

Well-Established Companies (Serving as Mentors)

The number and quality of the mentors will be key to the success of any mentor-protégé program. Necessarily, mentors will come from well-established companies. They should be construction executives with the knowledge and experience to help emerging business enterprises refine and implement sound business plans.

Mentors have to make themselves readily available to their protégés. In fact, their time is their most important contribution to the program. Among other things, mentors have to attend all meetings -- including but not limited to the regular monthly meetings that the program sponsor will schedule.

Between the regularly scheduled meetings, mentors have to be available to help their protégés address any significant business problems that the latter may confront. In effect, mentors have to be "on call." Mentors should not be expected to address routine matters but they should be there to help with any significant business issues.

In sum, mentors should help their protégés (1) set targets for improvement, (2) set deadlines for hitting those targets and then (3) meet those deadlines. Mentors should regularly review their protégés' business and action plans, and as their protégés grow and develop, mentors should keep close tabs on their protégés' key business indicators, including their cash flow, work in progress and recent bids. Mentors should also teach their protégés how to market a construction company.

Mentors' experience can be expected to help protégés:

- Identify any weaknesses in the latter's general or financial management;
- Identify the professional services that could help address those areas;
- Identify any seminars or other educational programs that protégés should take; and
- Directly impact protégés' engineering, project and construction management.

The second appendix is a sample agreement to participate in the mentor-protégé program. The program sponsor should require all mentors and protégés to sign such an agreement.

Emerging Business Enterprises (Enrolled as Protégés)

Protégés should also have certain responsibilities. They should be required to attend all regularly scheduled meetings and to help complete the agenda for those meetings. Between such meetings, protégés should be required to make every reasonable effort to implement the business decisions that the meetings produce. Depending on the circumstances, they may, for example, have to:

- Work with an accountant or other professional service provider;
- Attend seminars and/or other educational programs; or
- Implement specific changes in the management or operation of their businesses.

On a continuing basis, and for as long as they are enrolled in the program, protégés must also:

- Provide complete and up-to-date information on their businesses, including their business and action plans, their cash flow, their latest bids, and their work in progress; and
- Take the initiative to request whatever additional assistance they may need to address significant business issues.

As noted above, the second appendix is a sample agreement to participate in the mentor-protégé program, and the program sponsor should require all mentors and protégés to sign such an agreement.

The third appendix is a sample report form that protégés should be required to complete each month, in advance of their regularly scheduled meetings with their mentors.

Surety Companies

Surety companies and brokers that serve the local business community also have to take an active part in the program. The program sponsor needs to take advantage of their unique ability to encourage and help protégés reach the point where they are bondable. At least some of the surety companies and brokers can and should agree to meet with the protégés:

- To explain the purpose and function of surety bonds; and
- To help proteges develop the underwriting files that will enable them to get bonds.

Financial Institutions

The banks and other lenders in the local business community also have a role to play. At least some of these institutions can and should agree to meet with the protégés:

- To explain how to apply for credit, and related legal issues; and
- To help protégés actually apply for credit and/or increase the limits of their credit.

Protégé Performance Standards

If the mentor-protégé program is successful, protégés will achieve measurable success against a sound business plan. The model program expects protégés to demonstrate continuous improvement -- from quarter to quarter and from year to year -- in the following areas:

- Capital base, including:
 - Working capital;
 - Depreciated value of equipment owned or leased;
 - Payroll;
 - Material expensed;
 - Overhead expensed;
 - Net profit;
 - Available credit;
- Bonding limits, per job and in the aggregate;
- Value of Current and Future Work;
- Success in getting profitable work outside any government or other procurement program for small, minority, women or disadvantaged business enterprises;
- Retention of reliable and productive employees; and

- Customer loyalty resulting in repeat business.
-

Standard Operating Procedures

Below are some standard operating procedures for the selection of mentors, for the selection of protégés, for the assignment of mentors to protégés, and for meetings between the two.

Selection of Mentors

Either alone or in conjunction with the advisory board, the program sponsor should seek out and interview all potential mentors. In the course of the interview, and in other ways that it finds effective, the sponsor should assure itself that the candidate understands and accepts the program's expectations and is truly committed to making the program work.

Selection of Protégés

The advisory board and program sponsor should invite the emerging business enterprises in the local construction industry to enroll in the program. The board and/or sponsor should also interview the firms that do apply, to identify and/or clarify each firm's needs.

The invitation to enroll in the program should make it clear that all applicants must complete and submit a program application, a balance sheet and an income statement. The board and sponsor should use the balance sheet and income statement to conduct at least a cursory financial pre-review, before interviewing an applicant. This pre-review should include a comparison with standard industry ratios.

The board and sponsor may also want to require all applicants to have a minimum number of years in business. In any case, they should not accept new start-up companies.

The fourth appendix is a sample application form for emerging business enterprises interested in enrolling in the mentor-protégé program.

Assignment of Mentors to Protégés

The advisory board and program sponsor must also designate two mentors for each protégé. In deference to federal and other antitrust laws, the board and sponsor should hesitate to ask well-established companies to mentor firms that compete for the same work. In any case of doubt, the board and sponsor should seek the advice of competent legal counsel.

Meetings

Mentors, their protégés, the service provider and the program sponsor should meet at least once each month, at a regularly scheduled time and place. The sponsor should arrange these meetings, and the sponsor should prepare a written agenda for each. The service provider should take notes on the meeting, and at the conclusion of each meeting, the service provider should distribute a written report on the meeting to all of the participants.

The report should outline the protégé's most recent efforts to implement its business plan and the results of those efforts. The report should also list the protégé's current needs. Mentors and protégés

should use this report to guide their next steps, and the sponsor should use it to prepare the agenda for the next month's meeting.

At the regular monthly meetings, mentors, their protégés, the service provider and the program sponsor should also review the items on the protégé's business and action plans and make any appropriate changes. They should, for example:

- Review and identify any new barriers to the protege's success;
- Identify any management, accounting or other professional services that the protege still needs;
- Set specific targets for further improvement; and
- Set a deadline for hitting each target.

In the action plans themselves, mentors and protégés should record the steps necessary, and results required, for the protégés to improve their prospects for success.

The fifth appendix is sample agenda for the regular monthly meetings. On their own initiative, mentors, protégés and the service provider should also hold such other meetings as they may find necessary.

Progress Reports

Progress reports are intended to help everyone assess the actual results of the mentor-protégé program. They should also help the various players clarify and strengthen their individual roles. Recognizing that the relationships among the players are all voluntary, the reports should also help strengthen the program as a whole.

For each, month, quarter and year of enrollment, the program sponsor should produce a progress report on each protégé, based on the performance standards that this model recommends. These reports should go to the protégés and their mentors. Aggregate data should go to the advisory board.

Other Reports

Every six months, the program sponsor and professional service provider should also summarize all of their recent activities. Those summaries should also go to the advisory board.

Appendices: Sample Files (PDF)

- [Sample Request for Proposal](#)
- [Sample Agreement to Participate](#)
- [Sample Meeting Report Form](#)
- [Sample Application for Enrollment](#)
- [Sample Meeting Agenda](#)

Please Note: This model is neither designed nor intended to meet any legal standards set by federal, state, local or other public agencies. A mentor-protégé program based on this model may or may *not* meet government standards for such a program.