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The End Game

Synopsis: Selling, Merging, or Closing Your Practice? An Overview of the Many Processes and Factors to Consider When Choosing a Course of Action

Often overlooked until partners are considering retirement, ownership transition is a vital strategic planning step within a successful architecture firm. A firm owner should consider the firm's future years in advance of making a transition to sell, merge, or close a firm as each present differing financial and taxation consequences. Firm seller and shareholders must review and agree upon expected changes to firm culture, leadership, and autonomy.

Privately-owned firms must transition ownership and leadership of each generation if they wish to sustain themselves as independent entities. Uneven financial performance of many firms has made internal ownership transitions difficult to realize. An improving economy fuels mergers and acquisitions while a stagnating economy contributes to lack of preparedness to transition to new leadership. The important question for firm leadership to determine is whether the firm has set up the internal processes to cultivate future leaders, paving a smooth ownership transition.

Numerous hurdles exist for internal ownership transition and leadership succession which must be addressed. A recession economy can prohibit younger owners from purchasing shares, thus delaying typical paths for leadership succession. An improving economy will increase the likelihood of successful internal transitions since an infusion of profits is necessary to finance the purchase of shares from older leaders. The next generation of architects must possess the inclination, business instincts, and skills to lead a firm.

Factors that lead a firm to seek an external transaction include higher valuations, owner transition or leader succession failure, client demands, poor financial performance, and ongoing employment for firm owners and staff. When a firm is financially successful and can fund the redemption of senior owners, the firm may seek to attract leadership from outside the firm.

In determining whether to sell or merge, there are many issues to consider, such as: compatibility of workplace culture; personal property of seller shareholder; taxation; treatment of seller's employees. The transaction process of a sale or merger may follow the chronological steps outlined in the paper. When firm owners believe that neither an internal

transition nor a sale/merger can be consummated successfully, they will decide to close the firm, which is rarely the preferred course of action. To create real value in a firm that could later fund a founder's retirement, attention needs to be paid in developing the next generation of leaders.

Running a firm that is successful and profitable is not enough. To create real value in a firm that could later fund a founder's retirement, great attention needs to be paid developing and retaining the next generation of leaders. Employees should be recruited and retained who have the potential to take the firm into the future. The final decision of whether to sell, merge, or close a firm will not only affect the financial return to the owners, but the employment of staff, and the firm culture. Whether internally changing the ownership of a firm, dealing with an external buyer, or merging architecture firms, the AIA Trust white paper addresses the practice and business issues that will ultimately determine success or failure.

For more details, read the white paper: Selling, Merging, or Closing Your Practice? An Overview of the Many Processes and Factors to Consider When Choosing a Course of Action. For more resources about ownership transition, visit the Ownership Transition Resources page on the AIA Trust website.