Ownership Transition: Developing Future Firm Leadership

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Learning Objectives

• Recognize what current owners need to do well in advance to prepare for a successful firm transition in the future.

• Recognize the challenges and decisions for those who wish to transition into firm ownership to better evaluate their best course of action.

Learning Objectives

• Understand the various risks and hurdles of different actions or inactions to help protect and manage the architect’s and the firm’s interests in the transition.

• Understand the various insurance issues when transitioning firm ownership, including Extended Reporting Periods, claims history, limits of liability, and more.
Ownership Transition: Introduction

Overview

• Generational Change is a certainty – even in architecture
• How you engage in this process is the opportunity

Ownership Transition

Options for Firm Perpetuation

• Firms are privately owned
• Face transition in each generation
• Internal transition is the norm and often the ideal goal
• Continuation of culture and design practice
Ownership Transition

Perspectives to Consider:

• View of the firm – operational/ownership level
• View within the firm – taking leadership and/or ownership
• View from outside the firm – Suggestions and best practices to transition
• View of the individual – what are your questions?

Ownership Transition Considerations

Merger:

A long-term planning approach to firm transition
Ownership Transition

What for a Purchaser To Consider:

• Firm Culture
• Timeline for retirement of leaders
• Portfolio and experience
• Is there a “bench” of future leaders
• Financial Status/Profitability and Legal issues

Ownership Transition: How Firms Must Prepare

From a Hord Coplan Macht Experience

Disqualifying issues

• Older Owner(s) who want to retire NOW

• Owners kept most of the profits for themselves

• Owners had not brought younger architects into ownership and leadership.
Ownership Transition: How Firms Must Prepare

More Disqualifying issues

• Owners managed client relationships & the firm – *and* brought in most or all of the business
• The best and most ambitious employees have left
• No “bench” of future leaders or owners = not much value

Ownership Transition: How Firms Must Prepare

*From HCM Experience*

Qualifying issues

• Second generation of owners leading the firm
• Later retirement (5+ years) among owners
• Younger owners who can lead the firm in the future
• Similar cultures: focus on good design & sustainability
Ownership Transition: How Firms Must Prepare

More Qualifying Issues

- Well run and profitable
- Education specialty fits well with firm specialties
- Next generation active in leadership, client management and ownership

Ownership Transition

Results of Merger Using Qualifying Issues:

- Profitable
- Good mesh of two firm cultures
- Both firms are better
- Additional specialties & expertise
- Successful merger
Ownership Transition: Planning Ahead

What to do NOW:

• Mentor potential leaders in firm management, client management, making rain, and leadership skills
• Start internal ownership transition plan: share the wealth
• Get your finances in accordance with GAAP

Ownership Transition: Aspiring to Firm Ownership

Know What You Want Out of Ownership

• Have a long-term plan: set goals & expectations
• Time & Patience: financial gain, firm change or influence, staff respect
• The Investment: How are you going to pay for it?
Ownership Transition: Aspiring to Firm Ownership

Learn about the firm you are buying into:

• Firm history & reputation?
• Historic financial growth?
• Firm culture & values?

Ownership Transition: Aspiring to Firm Ownership

Learn about the firm you are buying into:

• Strategic plan for success?
• Any damaging litigation?
• Demonstrated faith and investment in you?
Ownership Transition: Aspiring to Firm Ownership

Understand Commitments & Benefits of firm ownership

• Understand Rights & Responsibilities of Shareholders’ Agreement: consult an attorney
• Are shares valued fairly and accurately?
• Is there a share buy/sell schedule in place?

Ownership Transition: Aspiring to Firm Ownership

Understand Commitments & Benefits of Firm Ownership

• Are there any legacy or founders’ clauses?
• Requirements & Opportunities to ascend to higher ownership levels?
• Understand ownership benefits: Health & life insurance, bonuses, tax & financial preparation, etc.
Ownership Transition: What Are Your Options

Three Basic Transition Alternatives: Overview

• Internal Intergenerational Transfer
• External Sale/Merger
• Firm Closure
Ownership Transition: What Are Your Options

Internal Transition: Leadership Succession

• Firm cash funds buy-back
• Buy-back dependent on firm performance
• Management & design succession challenges

Ownership Transition: What Are Your Options

Internal Transition: Leadership Succession Issues

• Merger/acquisitions increase competition
• Younger generation not eager to purchase equity or lead firm
• Owners waited too long to address transition
Ownership Transition: What Are Your Options

**Sale of Assets**

A sale of assets ultimately leads to the liquidation and dissolution of the selling firm, with the leadership and employees of the seller becoming part of the culture and staff of the buyer.

**Merger**

Under a merger, the existence and identity of the seller terminates upon the merger.
Ownership Transition: What Are Your Options

External Sale or Merger
- Sell Assets – Shares – Merge
- Higher valuations than internal transition
- Paid more quickly than internal transition–with less risk
- Addresses internal succession challenges
- Cultural & practice management challenges: Differing priorities may arise

Ownership Transition: What Are Your Options

Firm Closure: Alternative of Last Resort
- Complex and Uncertain
- Complete Contracts/Assign Contracts, Handle Leases, Terminate Staff, Close Operations
- Need: Lawyer, Accountant, Professional Liability Insurance Agent
- Collect Receivables
- Ensure Professional Liability Tail Insurance
Ownership Transition: What Are Your Options

Best Practices

• No Right Answer – Best Approach: Control Your Future
• Formulate Strategic Plan AND Transition Plan
• Evaluate Alternatives: Sell Inside or Outside Firm – OR Close
• PLAN AHEAD for Transition – or Face Closure

Ownership Transition: Issues & Risks

The Issue of Prior Acts/Services

• Addressing Past & Completed Projects
• Solutions for Projects in Process
• Determining Direction for Future Projects
• Extended Reporting Period Coverage
Ownership Transition: Issues & Risks

Review Your Insurance & Reaffirm Needs

• Who is Insured?
• Selecting your Limit and Deductible
• Other Key Coverages

Ownership Transition: Issues & Risks

Risk Management

• Address the New Culture
• Establish Future Best Practices
• Train, Communicate, Repeat
Ownership Transition: Q & A

What You Need to Know!
- Questions for Panelists
- Panel Discussion

Ownership Transition Resources

On the AIA Trust website:

- Leadership Transition
- Employment and the Board
- Business Plan
- Ownership Transition Resources
- Ownership Transition

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Ownership Transition

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