

# A'19, Las Vegas

Provided by the AIA Trust and Victor O. Schinnerer & Company, Inc.

## Ownership Transition: Developing Future Firm Leadership

Course Number TH203

Thursday, June 6, 2019 – 9:30 AM – 11 AM

1.5 Learning Units

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## Speakers List

**Frank Musica, Esq., Assoc. AIA**

Vice President, Victor O. Schinnerer & Company, Inc

**Edward Hord, FAIA**

Principal, Hord Coplan Macht, Inc.

**Travis Kreidler, AIA**

Principal/Studio Leader, Desmone Architects

**George E. Christodoulo, Esq.**

Senior Law Partner, Lawson & Weitzen, LLP

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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



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## 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

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## 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?



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## Ownership Transition Considerations

**Merger:**

***A long-term planning approach  
to firm transition***

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## 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

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## 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.

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## 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



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## Ownership Transition

### Results of Merger Using Qualifying Issues:

- Profitable
- Good mesh of two firm cultures
- Both firms are better
- Additional specialties & expertise
- Successful merger



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## 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

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## 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?

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## Ownership Transition: Aspiring to Firm Ownership

### Learn about the firm you are buying into:

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



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## 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?



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## 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?



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## 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.



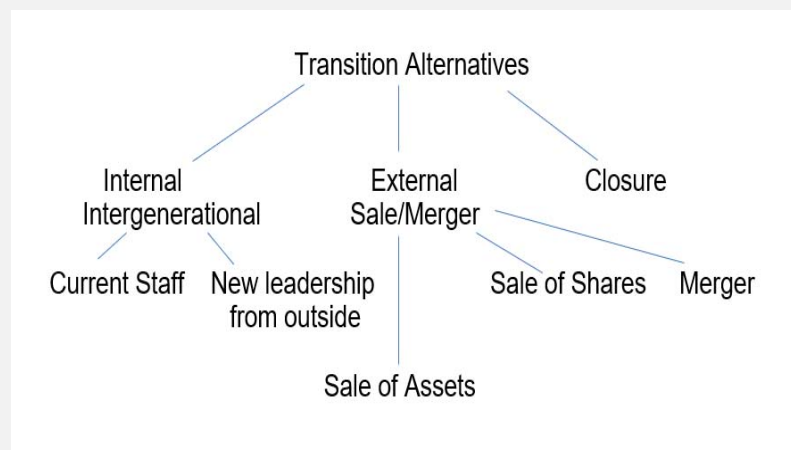
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## Ownership Transition: What Are Your Options

### Three Basic Transition Alternatives: Overview

- Internal Intergenerational Transfer
- External Sale/Merger
- Firm Closure

## Ownership Transition: What Are Your Options



## 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

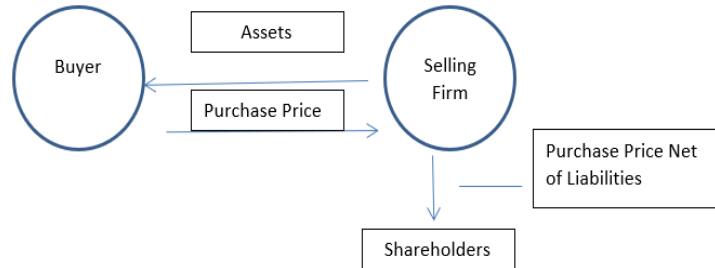
## Ownership Transition: What Are Your Options

### 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

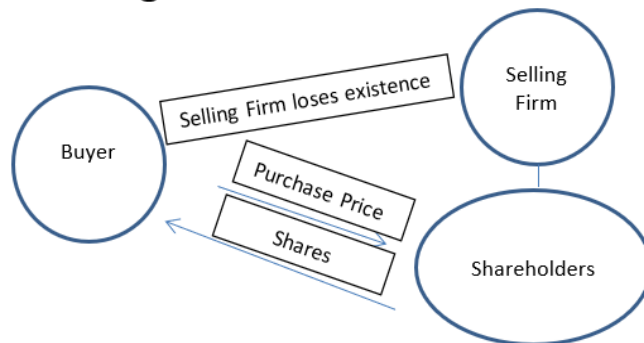
### Sale of Assets



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.

## Ownership Transition: What Are Your Options

### 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



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## Ownership Transition: Issues & Risks

### Risk Management

- Address the New Culture
- Establish Future Best Practices
- Train, Communicate, Repeat



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## Ownership Transition: Q & A

### What You Need to Know!

- Questions for Panelists
- Panel Discussion



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The screenshot displays the AIA Trust website interface. At the top, the AIA Trust logo is accompanied by the tagline "Where smart architects manage risk®". Below the logo is a navigation menu with categories: All Products, Practice Resources, Component Resources, Find an Attorney, Find an Insurer, and Newsletter. A search bar is located to the right of the menu. The main content area is titled "Ownership Transition Resources" and includes several articles and resources:

- Privately owned architecture firms in today's competitive environment face numerous hurdles when considering ownership transition and leadership succession.** AIA Members need to begin necessary planning well in advance to ensure the best results.
- Advice to Potential New Principals** - Six suggestions to consider when you're tapped to become a principal in your firm.
- Architecture Firm Ownership Transitions** - a short article which addresses the decision of whether to sell, merge, or close a firm—as well as the preparation and planning before that decision is made.
- Designing a Successful Ownership Transition: Ten Lessons Learned as a Professional Services Firm Transitions** DesignIntelligence article by Mark VanderKlippe & Jeffrey Corbin (2008)
- Extended reporting periods- ERPs**—help ease firm transitions. Professionals leave firms, firms dissolve or are acquired or merge, firm owners retire. These changes require special protection and any design professional anticipating a change in practice must carefully examine the options available with the firm's professional liability insurance broker or agent to find the best ones for you and your firm. Also known as "tail insurance", there are numerous reasons to purchase an ERP.
- Firm Strategic Plan**—See how one firm addresses ownership transition within the context of their firm's strategic plan.
- Insurance Concerns in Mergers and Acquisitions** - a brief article addressing key issues for anyone considering their firm merging, acquiring or being acquired.
- Key Person Life Insurance** - protects the firm in the event of death of one of the partners or other key income generator.
- Mergers, Acquisitions and Dissolutions**—If there is to be a change in firm ownership or operation, one must consider how it will impact professional liability exposure and insurance coverage in advance to ensure adequate protection.
- Ownership Transition Alternatives & Considerations**—Review 10 slides about the universe of considerations and respective benefits to determine your best strategy.
- Principal Interest** - a short article about five critical issues to consider when you're tapped to become a firm principal.
- Selling, Merging, Or Closing Your Practice?** This white paper addresses the

On the left side of the screenshot, there is a large grey arrow pointing right with the text "OWNERSHIP TRANSITION RESOURCES ON THEAIA TRUST.COM".

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### Ownership Transition

To download resources from this presentation, visit the AIA Trust booth (2830) or go to the website:

[theAIATrust.com/learning](http://theAIATrust.com/learning)

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The image features a background of a modern building's glass and steel facade. The AIA Trust logo is prominently displayed in the upper center, with 'AIA' in white and 'Trust' in red. Below the logo is the tagline 'Where smart architects manage risk®'. At the bottom of the image, the website 'theAIATrust.com' is written in a large, bold, black font. In the bottom left corner, there is a small logo for 'A'19 AIA Conference on Architecture 2019 June 6-8, Las Vegas'.