

This session was pre-recorded for and aired during the 2021 virtual AIA Conference on Architecture.

The AIA Trust is the premier risk management resource for AIA members and aims to provide members with the risk management tools and programs to run their firms successfully. This discussion is with a panel of architects familiar with the importance of firm transitions, to share their expertise about how vital leadership succession is for a successful architecture firm. A list of helpful resources is included at the end for reference.

Experts are:

- **Cynthia Shonaiya**, Principal for the last 10 years at Hord Coplan Macht, headquartered in Baltimore, Maryland with offices in four locations and 280 employees, where she leads their Senior Living studio and where she's practiced architecture for 21 years.
- **Travis Kreidler** is a Principal at Desmone Architects in Pittsburgh for the last seven years, having spent 15 years at the firm, which has three offices and 45 employees.
- **Tim Hawk**, President and Managing Principal of WSA Studio in Columbus, Ohio for the last 28 years with 31 staff.

QUESTION #1: What do current owners need to do in advance to prepare for a successful firm transition in the future?

Tim Hawk:

- It is important that folks document what they believe....to help bring clarity to vision and make sure that those who are attracted to assist with firm transition are aligned with the mission.
- Develop a strategic plan. It is critical that there is a plan in place that helps the firm take the necessary steps to implement strategy.
- Develop a brand. A digital presence is critical, especially when we are trying to communicate values to an emerging generation.
- Set up a leadership development pipeline. This pipeline needs to be intertwined with the strategic plan.

Cynthia Shonaiya:

One of the challenges we see when HCM is invited to assess a firm for merger or acquisition is that when a sole proprietorship has not broadened the ownership bench, and the Owner is approaching retirement, the other younger talent has often already left the firm, or the bench is so weak that when the 'main man or woman' leaves there is not much left. So, Owners need

to have a long-term goal to develop Ownership so that even if the firm transitions through a merger or acquisition, there is a strong asset that can appeal to a potential buyer.

Travis Kreidler:

One thing that Desmone did before I bought in and we continue to do about every 5 years, is have a strategic planning session. Within these sessions we develop and modify our transition plan, which to me reflects the firm's dedication to transitioning in new owners and keeping a transparent process in place.

A primary resource that we created is our "Ownership Program" that introduces candidates to what ownership means, how you obtain it and defines the various levels of ownership from associate to senior principal. It is supplemented by a "Frequently Asked Question" section that takes a deeper dive into typical questions asked by candidates. We also have a shareholders' schedule that reflects how many total shares there are, who owns what, and a plan for people to sell and buy within a specific timeline.

Keeping these kinds of basic items in place and maintaining them will help in a successful ownership transition.

QUESTION #2: How does your firm cultivate the next generation of firm ownership?

Cynthia Shonaiya:

- Recognize that Ownership and Leadership are not necessarily synonymous. Keep them separate. Do Owners need to be Principals? Not in my firm.
- Extend Ownership to those who may not be in, or even aspire to Leadership.
 - An attainable investment;
 - Mentorship programs,
 - Recognition of commitment,
 - Intentional expansion of opportunity, diversity, inclusion.
- The goal is to develop a broad base of ownership, then identify early those who the firm wants to commit to, and those who want to commit to the firm.
- Ownership outreach can thereby cross geographical, demographic, age, gender, barriers.
- Broad Ownership fosters deep and vested interest in the firm that then translates to a creative, committed workforce.
- Broad Ownership places more value, on commitment, care and experience than leadership
- HCM has dozens of owners...and a pool of potential owners.
- Benefits: Access to firm business communications; attendance at shareholder meetings; board elections. Firm leaders are not necessarily the largest shareholders - although there is some unspoken correlation.

QUESTION #3: How did you determine that you were interested in moving into firm ownership in your own firm?

Travis Kreidler:

I always had interest in owning my own firm, mostly because I have always preferred more

control over my career and what I pursued in regards to project types. I did recognize the value of having partners and because I grew organically with the company I decided to join on as an owner vs. doing my own start up. At the same time, I thought the company had that balance of being an established firm, but there was room for new ideas where I could contribute to its growth and success. I also felt like Pittsburgh was a place that was in the middle of a resurgence and wanted to be part of that excitement and saw a lot of opportunities in the region.

Also, as an employee at Desmone I was given leadership responsibility and felt my input was respected and listened too. It made me feel more comfortable that once I became an owner I would have a real say in the company's direction and development. A specific example of this was being asked to develop a more robust and consistent annual review process as well as a profit-sharing incentive program with a couple other future leaders. Being given this leadership responsibility really sparked my interest in obtaining ownership at Desmone.

Cynthia Shonaiya:

Like Travis I had always supposed that in order to become an Owner I would have to someday start my own firm or wait until I one day rose to Principal in my current firm. Coming from a family of Nigerian professionals (and not entrepreneurs or businesspeople) – accountants, lawyers, scientists, doctors who typically rose through the ranks to upper management, my understanding of career success was defined by *leadership* but not necessarily ownership. I was therefore pleasantly surprised in late 2010 when as a senior associate, I was to be invited to become part of the Ownership of the firm. I would say that it was essentially not on my radar at that time. Fortunately, I was in a position to make the financial investment that was required.

Nowadays as a Mentor, I always ask my mentees to keep an eye on not just leadership but ownership opportunities, and to evaluate their current positions from both perspectives. I see it as a mark of the value and recognition that your organization places in you as a dedicated professional. It also serves as a barometer for understanding the depth of one's own commitment to your firm. [If Ownership is not an attainable goal, in your current firm, what does it say about your relationship with your workplace?](#)

QUESTION #4: When one is aspiring to firm ownership, what are some of the challenges and decisions that one should evaluate to determine the best course of action?

Travis Kreidler:

I think that you first have to reflect on the company you are considering in relationship to your own goals and values.

Understanding the culture and core values of the company and making sure these are aligned with yours is probably one of the most important decisions to make. I think that operational challenges can be changed easily, like the type of work pursued or streamlining standards and procedures, but this basic idea of what the firm is will be much harder to change.

Also evaluating financial and business considerations is critical. Some examples include:

- Assessing the deal objectively as a business transaction: if you don't understand something within the shareholders agreement, it's good to consult legal counsel. Also, you probably like your potential partners going into this, but don't make emotional decisions that could impact your livelihood later – such as bending to founder's rights or not understanding your potential exit options if circumstances require it.
- Determining how you are going to pay for it: Bringing your own money to the initial purchase and foregoing bonuses for a few years might be an option. My firm allowed me to take a direct loan from the company for my initial buy-in, which helped me financially and made it easy since payments were pulled directly from my paycheck.
- You also need to develop a broader skill set that includes learning how to run the business, deal with staff issues, and take care of clients. These are things for which most architects are not trained, and they can become quite an awakening once you have to deal with them.
- Bringing in new clients, working longer hours, taking stress home with you or balancing project and leadership responsibilities are all things you will have to learn to navigate.

Also, consider external factors like social challenges or financial health of the city or region where the firm is located. These are not necessarily a deterrent to buying into a firm and could even be a reason to buy-in if you feel the firm will contribute in making real changes within the region and that aligns with your goals.

QUESTION #5:

a. When you look at future succession at your firm, what are the approaches that you find important to consider and why?

Tim Hawk:

- First and foremost, it is important to hire and promote from within. We have a Leadership Development program which allows employees to explore their future and consider how their career trajectory can dovetail with the direction of the firm.
- Through this process, if it is found that all the needs of the organization are not met, then it might be important to look outside talent to compliment the folks who are currently at the firm. This requires preparation for change and helping to develop buy-in among all internal players.
- It might be that there is a need to sell the firm. If the current owners are interested in receiving an immediate cash influx, or there is a need for immediate transfer of leadership due to circumstances, selling the organization may be the best way to maintain continuity.
- Another option is to participate in a merger. If the organization feels a need to diversify geographically or enhance their portfolio, then a merger can build success which can assist with transition plans.

Travis Kreidler:

Since I am starting to move away from being a “new” owner I thought it was important to

understand from the next generation of potential owners what is important to them when considering firm ownership, so I reached out to a few people at Desmone to get some feedback. Although traditional factors like financial gain and ROI was still an important to them some other key factors were:

- They need to believe in the mission of the company. So that cultural and values component that I discussed earlier has to be something they can get behind.
- Having more say, including on who we hire and who may be buying their shares as they transition out in the future.
- Using ownership as a conduit to allow for more advancement in their career.
- Work/Life balance, especially having time with family.
- And they need to love what they do every day.

So, it was interesting to see some of these items being at the top of their list and the depth of thought they are already putting into it. I think it really speaks to the efforts we have tried to make in cultivating and engaging potential owners early at Desmone.

b. **A few years ago, HCM merged with another firm. What are some of the reasons and the benefits of a merger for the firms involved?**

Cynthia Shonaiya:

When HCM merged with Denver's Slater Paull in 2014 we were able to achieve:

- geographic expansion,
- a deeper talent pool,
- larger workforce,
- market growth,
- better resources,
- diversification of practice, team, opportunities;
- employment options to attract new talent.

It was a strategic acquisition for both firms, not directly tied to Ownership succession and transition. For Slater Paull they were able to expand their practice areas beyond their strong education portfolio. For HCM, we were able to develop a national presence, beyond our east coast stronghold.

Most importantly we identified a **cultural fit** which enabled our firm to expand very rapidly, and increase our talent, Ownership and Leadership pools, which in turn has led to **smoother Owner and leadership successions**. In the last 3 years we have seen 3 founders successfully transition to retirement, and we have grown to several dozen owners.

QUESTION #6: For any firm principals without a leadership succession plan currently in place, what would you advise them to do first?

Tim Hawk:

Examine your firm's strategic plan and build into it an evaluation of your hiring and leadership development practices. Consider the long-term viability of your firm and where you want it to go and design your succession plan around it.

Consider the markets where your firm can have the most impact and cultivate a staff who can become the firm leaders who can best address the geographic, cultural, behavioral, socio-economic, and other pertinent needs of those markets.

Travis Kreidler:

From my perspective I think you should start by identifying existing staff to see who already demonstrates leadership qualities and who shows dedication to the company. Then start to cultivate those people by investing time and training into them. It is important to also educate them on what ownership is and means and to develop a transparent path towards ownership for them. If you have multiple offices, you should explore leaders in each of those locations as they will be best suited to address the geographic, cultural, socio-economic conditions specific to that market.

Cynthia Shonaiya:

Determine how much time you need for the transition, evaluate current staff and leadership pool, empower future new leaders, recognize there may be evolution. Understand who you are.

Visit theaiatrust.com and the [AIA Trust web page regarding Ownership Transition](#) for additional information and answers.

AIA Members must plan well in advance to ensure the best results for ownership transition. Resources that can help:

[Advice to Potential New Principals](#) – Six suggestions to consider when you’re tapped to become a principal in your firm.

[Architecture Firm Ownership Transitions](#)— Article addressing the decision of whether to sell, merge, or close a firm along with the preparation and planning before decisions are made.

[Extended reporting periods](#)—ERPs (AKA “tail insurance”) help ease firm transitions. Professionals leave firms, firms dissolve or are acquired or merge, firm owners retire. These changes require special protection and design professionals anticipating a change in practice must carefully examine the options to find the best ones for you and your firm.

[Firm Valuation](#) – companies that have A/E experience with firm ownership transitions.

[Insurance Concerns in Mergers and Acquisitions](#) – If there is to be a change in firm ownership or operation, whether merging, acquiring or being acquired, one must consider how it will impact professional liability exposure and insurance coverage in advance to ensure adequate protection.

[Key Person Life Insurance](#) – protects the firm in the event of death of one of the partners or other key income generator.

[Ownership Transition Alternatives & Considerations](#)—Review 10 slides about the universe of considerations and respective benefits to determine your best strategy.

[Ownership Transition: Developing Future Firm Leadership](#) – A’19 slide presentation about how to prepare to transition in or out of firm leadership.

[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?](#) A risk report addressing financial considerations, firm culture, professional careers, and consequences that must be considered in choosing the most suitable course of action for a practice. Identifies the critical processes, factors, and appropriate steps for transitioning firm ownership.