

Doing the right things pays off

By Hugh Hochberg, The Coxe Group



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AT TIMES, DOING THE RIGHT THINGS SOUNDS GOOD but draws skepticism when it comes around to doing them. When a firm does the critically important things correctly, while recognizing that it will pay a price in the *short* term in order to enjoy a stronger *long* term, it can be both refreshing and insightful. The following story, true in all but the names, revolves around a strong designer/practitioner.

A mid-30s practitioner, Chester, decided to acquire an ownership position in the five-person firm in which he had worked for several years. Richard, a sole proprietor, in his late 60s at the time and highly respected within the profession and by his clients, wanted the firm to continue, wanted to have a venue in which to practice and wanted to shed responsibilities for the running of a business. They worked out a financial deal by which Richard would phase out of ownership during a three-year period, essentially by withdrawing his net worth while Chester built new net worth. The plan was predicated on a realistic forecast of the firm's revenue,

cash flow, and compensation to both Richard and Chester, with Chester's compensation opportunity increasing as he assumed more of the risk of owning the business. Richard's compensation, beyond withdrawing his net worth, was largely tied to the revenue and profit he generated. Chester had already demonstrated his ability to bring in the right kinds of clients and the right kinds of projects for this firm. Observations:

- ♦ The financial plan recognized that the primary financial benefit of ownership is the opportunity to participate in the profit the firm generates while one is in an ownership position.
- ♦ The model recognized that Richard's financial value going forward would be primarily tied to the profit on the work he generated.
- ♦ Richard chose his successor well, with the most obvious characteristic being that Chester would not have to rely on Richard to bring in work.
- ♦ A potential downside is that with growth in revenue and profit, Richard might conclude that he should be compensated more. But countering this is the understanding on the part of both Richard and Chester that Chester had been ramping up for a few years to the point that he was not dependent on Richard, although both enjoyed the opportunity to explore ideas, particularly related to architecture (moreso than about the practice).

Under Chester's evolving leadership, the firm prospered. Within three years, the practice doubled in size, and Richard continued to be involved, albeit at a three-quarters time commitment. Growth in staff count and revenue might easily have been larger, but Chester avoided the temptation on the revenue (and potential profit) side by keeping clearly in mind his goals for assuming

the ownership position: Create really good work for *really good* clients with *really good* staff and not take on more work than that in which he could have a design role. The criterion, "really good," has led to three things:

1. Talent is critical, as are the processes and attitudes within the firm. Bringing in the wrong talent could be disastrous, particularly if not corrected (most likely by dismissal). Chester opted to take on less work and/or overwork himself (and possibly his staff, although he was careful to listen if staff members expressed concern).
2. Although not particularly pragmatic in the process, Chester essentially put prospective clients into one of three categories:
 - a. **Right client and right time** (to take on and begin the work). Prospects in this category became clients immediately.
 - b. **Right client and wrong time** (in which case he would tell the client that he wanted to take on the work but it would be *x* months before he could begin the work). A prospect in this category would become a client if willing to wait until Chester felt the firm could begin the work.
 - c. **Wrong client** (irrespective of such considerations as the potential fee and the *project* opportunity), meaning, most importantly, that Chester sensed that value differences would severely limit the firm's ability to provide the quality of work and level of service to which Chester aspired. Prospects in this category simply never became clients. During the past year, Chester has turned down 50 percent of the opportunities that have come to his door.
3. Chester's reasons for ownership were driven first and foremost by the architecture. He was very aware that he was *practice-driven*, and in that context, the organizational and business aspects were secondary unless inattention to either impeded the practice side. While one could legitimately argue that even minimal ineffectiveness on the organizational and business aspects did indeed negatively affect the practice side, Chester, until recently, was willing to address such matters as lower priorities, meaning he would tend to them if/when he had time. Significantly, however, he noted that of late he was enjoying things less, which spurred him to consider his options:

- a. Do nothing different and live with the discomfort. While perhaps acceptable for a while, Chester anticipated that a continuing decline in his personal satisfaction would affect the quality of the work. He also anticipated that at least some of the things that discomfited him would also discomfort staff, leading to lesser performance and departures.
- b. Shrink the firm – by taking on fewer projects and dismissing some staff members – to a size of seven, which, if his memory served him well, was the size before the discomfort surfaced. At an emotional level, this was very appealing, but Chester was very aware of the reality that the number of projects he felt he could lead simultaneously required a staff of at least the current 10 to assure satisfactory delivery.
- c. Assign roles to various staff members to address such things as finances, training, marketing support, administration and facilities/resources. In theory, this seemed reasonable, but given how much he screened potential hires on their ability to contribute to the creation of the architecture, he was strongly inclined to believe they would be, at best, marginally effective in dealing with these additional responsibilities.
- d. Identify someone at a senior level to deal with these non-project aspects of the firm. As he considered the options, this one had the most appeal, since he felt (hoped?) that the right person for the role would have the same passion and commitment to those things as he did for the practice aspects.

The last is the tack on which Chester embarked, and he is being patient while identifying candidates for the role. In the meantime, the discomfort at having to deal with management and organizational matters is taking its toll, but there is light at the end of the tunnel: Good candidates for the organizational management role have surfaced.

Once the organization matter is addressed, the next challenge will be project-related technology. With a workload composed entirely of residential work – single-family residences and condominium interiors – the firm can delay converting to building information modeling, but Chester expects that to be the primary technology of the firm in three years. All in all, Chester leads his firm and his work admirably, and particularly key are his understanding of working with the right clients, employing the right staff, and structuring the firm so that he can devote most of his energy on the things he does best ... which, not surprisingly, are the things he enjoys most. ■

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