



LEARNING FROM A SUCCESSFUL MERGER

By Hugh Hochberg

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This is a story about a merger of sorts—a story of design firm leaders stepping back from their day to day practices to find what gratifies them, what frustrates them, and then planning their futures while continuing to give high priority to serving their clients. Equally significant, it's a story about developing and initiating strategies to make things happen, rather than waiting for a happenstance evolution.

The Beginning

There are two starting points to this story. The two partners of one of the firms involved, NR Architects, began their firm seventeen years ago. It fluctuated between seven and twenty-two people during that time, although it always had the essence of a ten-person practice. The two principals, Tom and Chuck, are highly compatible and share common goals and interests. Their personal and professional friendship predates the founding of their practice by several years. The practice survived the departure of a partner, several key members of their staff, and three recessions. It succeeded largely on the talents of the partners and staff as architects and on their abilities to sustain long relationships with their clients.

Tom is a few years older than Chuck, and the difference in their ages gradually became a cause for concern. As one and then the other approached his mid-fifties, they became increasingly concerned about how each would gracefully leave the firm and feel good about what would happen to the firm and to themselves thereafter. They saw a problem approaching: The success of the practice was due largely to their chemistry and camaraderie, yet unless they left the practice simultaneously, the remaining partner (Chuck) might have difficulty not only sustaining the practice, but also enjoying it. The close friendship of the partners compounded the situation, since key staff members who may have had the potential to function as partners sensed that the tight partnership relationship precluded by their joining that inner circle.

In a neighboring city, the principals of the second firm, a well-established, and larger firm, KRL, with a staff of about 35, had recently redefined its goals and intended to take the firm to an arena where there would be more opportunity for greater collaboration and creativity. When the principals met the NR Architects partners, Tom and Chuck, in November of 1993 to consider the possibility of collaboration, the principals of KRL encountered a tension: Were all the KRL principals as committed to their vision as were the two—Diane and Jim—who were most influential in its creation? As with many firms with second or third generation ownership, the assembly of principals was more a consequence of selection by the previous generation of leaders than of conscious choices by

successive principals to choose their own colleagues. The firm had accommodated the differences by allowing "firms within the firm" rather than pushing the commonality of purpose that would have had it become "one firm".

The Courtship

Over a period of two months, the NR partners and the KRL principals met several times in small and in large groups, at times with our involvement as consultants who introduced them and at times by themselves. They spoke about what a joint practice would offer in market opportunities, professional satisfaction, and in financial rewards. As the dialogue continued, the varied and sometimes conflicting goals among the KRL principals evidenced themselves, and the two who had done the most to shape the new KRL vision thought seriously about leaving their own firm to join NR Architects.

Conversations among the four continued, during which time an awareness grew that Tom and Diane complemented each other in their interests and skills in managing the practice, at the same time that Chuck and Jim saw the potential for collaboration in design leadership. Unusual in both instances was the immediate intent on collaboration rather than focusing on individual control.

The Engagement

The "courtship" continued for another three months, at the conclusion of which Diane and Jim decided to join NR Architects, with the agreement that they would become partners within twelve months. They settled their departure with KRL, agreeing to reimburse the firm for marketing expenses associated with pursuing a major client relationship that was going to follow them to their new firm. Within weeks of Diane and Jim leaving KRL, several members of the KRL staff, who saw their professional goals more compatible with the departing principals than the remaining ones, also found a home at the NR Architects. With sudden expansion of the staff, the office was bursting its seams. Marketing and sales efforts increased the staff further and compressed the space more; the need for additional facilities was regarded as a sign of progress.

The Merger

The four about-to-be-partners explored issues of legal structure with their attorney, accountant, and us as their management consultant, and decided to continue as a partnership, since it more accurately represented the professional relationships that they wanted to have with each other and with their clients. They also opted for the new vehicle of a limited liability partnership (LLP), adapted to their practice as a professional limited liability partnership, a vehicle that may have particular benefit on limiting the liability of a partner who reduces involvement in the firm without withdrawing completely. Again wanting the structure to reflect how they expected to operate and relate to one another, they established themselves as equal partners, with the marketing

reimbursement to KRL being recognized as part of Diane and Jim's capital accounts.

Clients, both new and old, are satisfied and in some cases enthused by the expansion. Profitability has soared, providing the foundation to invest further in its people and its resources, all directed toward higher value to clients, more opportunity for staff, and professional and financial rewards to staff.

The partners meet regularly and continue to refine their respective role definitions so that the talents and interests of each will affect the firm in the most positive way. They continue the close dialogue among themselves and with their staff, which has doubled in size in the first twelve months of the marriage. Graphic designers and public relations consultants will do their part to help the firm bring word of the expanding practice to the marketplace and the community. And since the firm no longer fits under one roof, it has expanded into additional space across the street—recognized by all to be less than ideal, but workable nonetheless, partly because all partners spend time in both facilities, and some partners have work stations in both spaces.

With the growth of the firm, the partners recognize the value of a more organized marketing effort. And with growth comes the need for more diligent overview of project delivery to assure consistency of quality of service and product. The partners developed and have begun to implement plans to deal with both of these areas.

Keys to Continuing Success

- At KRL, the principals had diverse goals and differing views of others' abilities to contribute to a single set of goals. They wisely decided at a personal level to settle into separate situations more suitable to the two groups of principals.
- The partners of the expanded firm, NR Architects, sought not only fit on the basis of professional expertise, but also on the basis of the level of collaboration they sought.
- The key design partners, Chuck and Jim, discussed how and when to collaborate and how to lead design in general to avoid a common pitfall in mergers--fighting over design control.
- The partners explored with their management consultant how to deal with such issues as governance and compensation before deciding to join forces.
- No one came to the table with the expectation that anyone was going to carry an uneven load, which is not to say they all expect to do the same things, but rather they expect to do things of equal value to the success of the firm.

- The incoming partners brought with them projects and work in the pipeline at the start, thereby not creating cash flow pressures, and more importantly, not creating a sense of dependency.
- The partners recognize the importance of maintaining close awareness of goings on throughout the firm, and have regular, frequent meetings toward that end.

Essential Learnings

- An ownership group beyond the first generation faces a special challenge if it is to stay together as a group in leading a successful practice.
- The closeness of partners can impede its internal ownership evolution if it limits the sense that others can join the owners' inner circle.
- Cultural fit as well as professional fit, is critical (and that applies to staff as well as partners), perhaps more so in a small to mid-size practice than in a larger one.
- A courtship process with frequent interaction creates a dialogue that will lead to good decisions about whether to proceed with marriage.
- A decision to carry out a merger based on professional and cultural reasons will ease the decision making about the mechanics (legal and financial issues).

There is no one secret formula to the success found by this new partnership. Rather, there is simply the good fortune of having found a good fit and having made a series of decisions based on professional and personal compatibility.