

National & Regional News

Sell, Acquire, Merge: Another Perspective

By Hugh Hochberg, The Cox Group



Hugh Hochberg

AFFILIATIONS OF VARIOUS SORTS—consulting to other firms, joint ventures, acquisitions, mergers, and hybrids of numerous types—have played a role in the profession of architecture for decades. More recently, current and anticipated changes in the marketplace, short- and long-term business strategies, difficulties in timely recruitment of talent, and client expectations have heightened awareness of, if not desire for, such affiliations among architecture firms. Are such strategies wise and, if so, what are the guidelines to assure success?

Conventional Approach: Practice Driven

Conventional wisdom, which suits many firms well, points to fundamentals such as these in considering lasting affiliations:

- Compatibility of values;
- Clarity of roles, particularly in senior leadership, governance, design and management;
- Strategy for bringing in work (and confidence in the success of the strategy);
- Agreement on the authority and process for decisions about compensation;

- Organizational philosophy on everything from whether offices will be interdependent or freestanding to whether the financial model shall be “one firm” or profit centers;
- The financial aspects of the “deal” that will join firms;

Other issues to consider include clarity about marketplace identity, technology platforms, administrative and accounting functions, and understanding about how the firms will integrate and whether or not they will co-locate.

Leaders in most potential affiliations will serve their firms and themselves well by addressing each of these issues. Certainly there can be considerable room for disagreement on the categorizations, but if problems arise after the formation of an affiliation, they are likely to fall into one or more of those areas.

The Significance of Values

Most discussions begin with one firm perceiving something in another that causes it to think about possibilities that might result from an affiliation. Often it is some combination of track record, client base, key talent, location, and size that starts such thinking. Not too long after conversations begin, the dialogue shifts to “what are you about?” and “what drives you?” In other words, the discussion shifts to *values*. It’s much easier, however, to *talk* about values than it is to *understand* fully how they manifest themselves in the practice. More than once, communications that led to what was intended to be a permanent affiliation proved very different from the way people actually practiced and the way they dealt with each other, ultimately resulting in divorce.

Values involve everything from philosophical and spiritual foundations to attitudes about people inside and outside

the firm. They also range from approach to design to the balance of personal, professional and business goals.

This values discussion is most critical in situations where the leaders intend that the combined entity will be “one firm;” that is, a firm with relatively easy access for broad collaboration. Most leaders gravitate toward this notion, which is healthy because such a mindset influences performance that results in synergy: One plus one equals more than two. If that’s *not* the goal of a “one firm” philosophy, it should raise the question of whether the affiliation makes sense.

Alternative Thinking: Business Strategy

Much of the above draws heavily on the philosophy of *practice* first and *business* second. When the drivers are reversed, things get intellectually interesting, even as they might get professionally agonizing. Consider these examples:

- A firm with strong political savvy and high ethics (which might sound like an oxymoron) and an expanding network as a consequence of political relationships follows a business strategy in which it creates a physical presence where it has strong political connections. Assessment: To date, this approach has worked reasonably well and, in fact, where results have been less than stellar it is a consequence of having overestimated the strength of the local political connections.
- Several large, multi-office firms follow a strategy not unlike franchise restaurants: Increased visibility in a large number of geographic areas increases the market strength and potential of every office. Assessment: The visibility they achieve is generic. That is, among more knowledgeable clients, such firms are often regarded as “jacks of all trades, masters of none”...until individual experts build credibility and visibility. Such firms are often saddled with relatively high overhead and the generic side of things requires price competitiveness. The financial result is modest profitability, which is more than a little ironic because profitability is often one of the motivating factors underlying the strategy.
- A firm that has grown considerably over the last three decades follows a simple strategy: Open offices where clients ask them to do so. Assessment: The approach has worked well since such clients are often multi-locational themselves and have learned to value what the firm has provided elsewhere.
- The philosophy of another firm is to acquire firms that haven’t been doing well and rely on their own leadership and management expertise to reverse the acquired firms’ performance. Assessment: The firm has grown rapidly and is most successful at the lower end of the market; that is, its strength is greatest where it competes on low prices. The resulting profitability is modest, and one might assume that its ability to *manage* these many offices is

greater than its ability to *lead* (part of which is to create and strive toward an exciting vision).

Although many of those firms don’t realize it, they have subordinated *values* to the business (often *growth*) strategy. And where such a flip might appear to be unwise and bound for failure, the success that some of those firms have enjoyed suggests otherwise. If values compatibility is so important in practice-driven firms, how can diminishing its priority work? The answer is that when business strategy is the driver, a likely outcome is that the leadership and senior management will define certain things—often having to do with primary market sectors, compensation, technology, and administrative procedures—while leaving the majority of acquired or merged firms’ strategies and operations to the local leaders. An obvious key is having strong, effective leaders in place, at least long enough to allow new leadership to evolve into prominence. Even with business-driven growth strategies, values compatibility makes it easier and directly contradictory values will indeed clash and eventually lead to failure.

With growing frequency of merger and acquisition inquiries, many Northwest practitioners can expect to be approached by other firms and possibly by firms that are primarily in other businesses. Most of those approaches will be from practice-based firms, but a few may come from firms driven by business strategies. The immediate reaction might be to dismiss such explorations or to jump immediately to the financial aspects. Both responses might be smart and certainly will cut to the core of some inquiries, but a more contemplative response might lead to a thoughtful and different response that reflects the collective goals, aspirations and values of the firm’s leaders and staff.

Final Thought

Most discussions about possible permanent affiliations end politely with nothing more than “that was an interesting thing to consider.” A few discussions go beyond that and still fewer end up as a consummated deal. Some of those consummations were driven more by a seller’s need to sell externally because of ineffective efforts at internal transition; in other words, the buyer came in as a “white knight.” At the other end of the spectrum are deals that were driven by leaders in both firms seeing opportunities that neither would reach as quickly without an affiliation. Consultants like me, who have seen and tried to clean up the aftermath of less-than-successful affiliations, tend to express skepticism while brokers tend to see things only with great optimism since their compensation depends on making deals happen. Firms will serve themselves well by considering potential opportunities that come along, even if the only benefit is a greater understanding of the evolving world in which they practice.

Hugh Hochberg can be reached at hhochberg@coxgroup.com or 206-467-4040.

Shielded Building Materials



20811 N.W. Cornell Road
Suite 500
Hillsboro, Oregon
97124-9804 U.S.A.

We produce protective radiation and sound barriers for use in the construction of medical, dental, veterinary, research, military, commercial and industrial facilities.

Lead-backed Gypsum Board, Plywood and Paneling

Lead-lined Wood Doors & Window Frames

Lead Conduit Shielding

Lead Brick & Block

Radiation Resistant Glazing

For more information:

Telephone 503/614-8810

Facsimile 503/614-9272

Toll-free 800/498-1460