



SO YOU WANT TO BE AN OWNER

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The Situation

Imagine that you are a 35-year-old architect in a 30-person firm. You have earned a professional degree from an accredited school, completed your internship, and passed the Architect Registration Exam. In your firm, you have advanced in responsibility from a person who simply executed tasks at others' direction to someone who now is able to design, document, and administer the construction of the firm's projects without extensive supervision. Your compensation has risen commensurate with your increased capabilities and responsibilities, and your status has as well. You have been named an Associate in the firm, although you are not quite sure what that means.

Looking around, you see two equal partners who founded the firm, one 57 years old and the other 54. You also see John, a 40-year-old Associate who has been invited to join the partnership. You have begun to ask yourself questions, like "Why him, not me?" and "When will it be my turn?" and "What does it take to get to be a partner around here?"

These are legitimate, answerable questions. The problem is that few people express their concerns by asking them, and few with the knowledge and authority to provide specific answers ever do so. But there are always reasons for such elevations, sometimes explicit, sometimes not. In order to understand the reasons, one should first understand why firms expand ownership, why they transfer internally, what the firm needs from its owners, and what criteria are likely to be considered.

Why expand ownership?

It is useful to understand why owners expand the firm's ownership. There is no one reason, although some reasons are more common than others. One is growth. As firms grow, most find that they cannot add staff only at the bottom. They need to add principals at the top as well, to secure and manage client relationships and to provide necessary project management, expertise, and internal leadership. A second is expansion. Firms that wish to expand geographically or into new markets within their geographic range do so more effectively if those expansions are led by entrepreneurial professionals

who can do what principals do. A third is retirement. Ownership expansion becomes important when the firm's principals begin to think about their own retirement or, equally important, about how to realize the value of the capital investment they have made in their firms. Retiring owners need other capable principals in place to lead and manage the firm and to whom they can transfer (i.e., sell) their ownership interests. Another is continuity, which is fostered by ownership transition. Many design professionals develop viable practices over the course of their careers and hope to have their firms continue beyond their own tenure. Transferring ownership to the next generation ensures continued service to valued clients, a continued workplace for valued employees, and a firm that continues into the future. Finally, there is the marketplace. The marketplace is a huge determinant of success. Whether or not design professionals choose to retire, and many don't, their clients generally retire at the conventional retirement age, and their clients' successors frequently choose to hire and work with their own peers, not their bosses'. A firm that loses touch with the marketplace loses its *raison d'etre* and can no longer sustain itself. Ownership transition allows the next generation of professionals in a firm to move into leadership roles, with increased visibility and responsibility for marketing. Bringing new members into the ownership circle often allows the firm to maintain its understanding of and connection to the marketplace.

Why transfer internally?

Internal transfer has proven to be the most effective way for owners to assure the firm's continuity, recover their investment in the firm, and eventually retire. The advantages of internal transfer include: the opportunity to continue the firm as an ongoing entity; access to a pool of buyers who have become integrated into the firm's way of working; potential of a reasonable financial return for the owner, usually in the range of 1.00 to 1.50 times accrual basis net worth; maintenance of control of the firm until owners' ownership percentage is reduced to less than 50 percent; and maintenance of the selling owners' personal compensation and perks, subject to the establishment of a compensation and benefit arrangement that includes and is acceptable to the new owners. There may be disadvantages, or perceived disadvantages, including the lack of suitable candidates, the need to begin sharing information and control, and the need to involve, foster the success of, and ultimately rely upon the contributions of others for the success of the firm, particularly with respect to the ability to secure new work.

What does the firm need from its owners?

Firms need specific, very important contributions from owners that only owners can provide. You can think of these needs as "ownership responsibilities," since they become the responsibility of the owners to

provide them. Conscientious owners contemplating transfer will be well advised to ensure that the candidates being considered will be able to provide these needs:

Capital. The owners are responsible for providing the capital necessary to start and operate the firm. Start-up capital is required at the firm's initiation for organizational expenses (leasehold improvements, furniture, fixtures and equipment, stationery and marketing materials) and initial operating expenses that are incurred and must be paid for pending receipt of cash for services performed. Capital is vital to support the increasing need for more sophisticated technology.

Once the firm is up and running, additional capital may be required to fund unusually rapid growth-growth that cannot be funded solely from profitable operations-and to provide cash when collections fail to meet current operating needs. These additional capital needs are frequently met with bank loans in the form of lines of credit for which the owners assume the responsibility and the risk. When capital is required, either at formation or later, the firm's owners are the only ones who can be expected to provide it.

Marketing. Professional design firms provide professional services to clients on projects. It is the owners' responsibility to secure those clients and projects, i.e., to market and sell. Although non-owners are frequently involved in supporting the marketing effort, it is the owners' responsibility to feed the firm. Typically, clients buy services from those representatives of the firm they perceive as able to commit the firm's resources to the project at hand. Since the firm can only do, and generate revenues from, the work it sells, marketing is its lifeblood. Those individuals with the ability to obtain clients and projects-the "rainmakers"-are legitimately understood to be making a significant contribution to the firm's well-being, perhaps the most significant contribution.

Management. It is the owners' responsibility to ensure that the firm is managed successfully. They must maintain the viability of the firm so that it continues to fulfill client expectations regarding the execution of its projects, and they must manage the firm to produce a profit that is sufficient to remain competitive in the marketplace and ensure the firm's bankability and continuity. They must manage it to provide a return, at the level they deem appropriate for their investment and risk. It is the owners' responsibility to make the critical management decisions regarding every aspect of the practice: its finances, operations, human resources, and marketing.

Quality. The owners establish and assure the level of quality that is consistent with their clients' expectations and their own professional values.

Satisfied clients generate future revenues, especially through repeat and referral work. Equally important, the firm's reputation in the community is exemplified by its completed projects that will stand in the future as examples of what the firm is capable of producing. Although implementation, review, and control of quality may be delegated, the essential determination of the level of quality desired in completed work cannot be left to non-owners. The firm's reputation for service is of equal importance. Since the firm's projects are achieved as the work product of the services the firm provides to its clients, the owners must be attentive to the quality of the services it provides. It is the owners' right, and responsibility, to establish the level of design quality, technical quality, and quality of service that must be achieved.

Leadership. The owners provide the leadership necessary to move the firm closer to realizing their vision. Owners lead the firm by creating and sharing the vision they have for their firm with employees, clients, and the community at large. They demonstrate leadership by setting examples, performing, motivating, encouraging, mentoring, and rewarding others, so that they perform in ways that help move the firm forward. They provide inspiration, direction, and motivation for their firms.

Employees who display such inclinations, characteristics, and abilities will likely become candidates for ownership in the future.

What criteria do owners consider?

Selection criteria are the personal and professional qualities that the current owners seek in their potential successors. They relate to the essential elements that owners provide to their firms—the aforementioned needs and responsibilities. The selection criteria are the "why" a person is selected for ownership. The responsibilities of owners are "what" owners do after they have been selected. Owners who contemplate transferring ownership in the firm to others must identify successors who will make the firm successful. Owners must believe that if candidates meet the "why"—the selection criteria—they will become successful owners and will fulfill the "what"—the responsibilities. The following criteria are frequently considered when evaluating candidates for ownership.

Professional maturity. The candidate demonstrates high professional standards and actively works to help others develop similar attitudes, with the overall result that matters are handled appropriately throughout the firm. Professional maturity refers to the attitudes, behaviors, and expressions that demonstrate the professional wisdom that comes from maturity, and not to specific professional/technical skills. Questions that might be asked include: Does the candidate address issues directly and professionally? Is the

candidate's manner confident and assured? Does he/she convey appropriate information and opinions? Does his/her demeanor and behavior reflect well on the firm?

Professional/technical competence. The candidate consistently demonstrates high skill levels in one or several professional/technical areas by doing, by guiding, and by establishing performance standards and motivating others to achieve them. The candidate should conform to the basic professional/technical, business, and other tenets by which the firm practices. Candidates who seek design, technical, or managerial excellence have to set the standards, put appropriately skilled people in place, and guide them to assure that the established standards are followed.

Values compatibility. The candidate possesses, demonstrates, and reinforces strong professional and business values that are compatible with those of the firm's current principals. It is essential that the firm's principals and the candidates have compatible values. If the current principals are practice-centered, they are likely to practice their professions as a way of life, and are likely to value success qualitatively, asking, Did we achieve the level of quality we sought? If, on the other hand, the principals are business-centered then they are likely to do what they do less as a lifestyle manifestation and more as a means to earn a living; they are likely to value success in quantitative terms, asking, Did we achieve our financial goals? Design professionals with strong practice-centered values are more likely to make critical decisions, especially project decisions, with the achievement of quality (as they define it) as the primary objective. Design professionals with strong business values are likely to make the achievement of financial goals their primary objective. Candidates whose values are inconsistent with those of the ownership group are likely to be continually uncomfortable with the principals' key decisions, and if elevated to principal are likely to make their partners uncomfortable, if they insist upon their point of view.

If candidates for ownership do not share the basic values of the current owners, then the new owner or owners will have different personal objectives with respect to organization, leadership, decision-making and, especially, financial return, leading to future conflict.

Business understanding. The candidate understands the importance of a sound business foundation and business practices, makes decisions with the objective of achieving the proper balance of professional and business objectives, and guides others accordingly. Regardless of the dominant value set of the principals, the firm will always be both a practice and a business. Decisions made by the principals, and by others down the line, will reflect aspects of both value sets. On each project the principals will not only have

professional objectives, such as achieving quality in design, they will also have business objectives, such as adhering to schedule and budget. In exercising their daily business responsibilities, candidates for ownership must demonstrate not only that they understand the need for balance, but also that they understand and agree with the balance that the current principals desire.

Risk attitude and understanding. The candidate understands the concept of risk taking and the role it plays in moving the firm forward. He/she is able to balance short-term and long-term priorities. The candidate must recognize that the firm's need to explore new opportunities may expose it (and him/her) to risks that are personally discomforting, and commit to the best decision for the overall well-being of the firm. Opportunities will be available to the firm continually. Capitalizing on opportunities will require making choices, and those choices will have attendant risks. Every firm decision involves choice and every choice involves risk, some minor, some major. The candidate must understand this concept and always act in the interest of the firm when analyzing choices.

Marketing and selling skills. A principal's most important contribution to the firm is likely to be getting and satisfying clients. This is especially true in smaller firms with a limited number of principals. The "getting" part involves marketing and selling. Candidates must develop skills and refine personal styles so that they inspire confidence and are successful in bringing in work-through developing relationships with prospective clients, maintaining and nurturing relationships with existing clients, and appropriately representing the firm in marketing and selling situations. In the final analysis, the principal must be a "closer." Prospective clients for design professional services will want to buy from professionals that can commit their firms' resources, i.e. from the owners. The principals must be able to close-to get the prospective client to say, in effect, "I want you and your firm." Because new work is the lifeblood of the firm, the current owners must have confidence that some or all of the new owners can sell.

Client and project management skills. After the job is sold, the principal must be able to lead projects to achieve the client's and the firm's goals. If the firm intends to grow, the principals must not be overly protective of their own role in client relations, but must work to help others to develop such skills. It is typical for principals who sold the project to become the principals-in-charge (PIC) of the project, especially in small to medium-sized firms and frequently in large firms, as well. Usually, PICs sell the project, negotiate the contract for services, assemble the project team, and establish the project objectives. Frequently, they will establish the initial concept for the project and assume responsibility for client interface and communication

at the front end of the project. Their role is one of leadership to ensure that the client's and the firm's goals are achieved. Satisfied clients enhance the firm's reputation and bring repeat and referral work. In addition, successful projects build individual and collective knowledge, experience, and confidence within the firm, and provide the money necessary to reward the contributors and build the firm.

Strategic thinking. Typically, professional, technical, and clerical/administrative staff focus their efforts on achieving the relatively short-term (tactical) objectives to which they are assigned, particularly related to projects. Principals, however, must focus on long-range (strategic) and short-term (tactical) objectives. This focus is vital to the firm's interest. If principals don't do it, it won't get done. Candidates for ownership must recognize that some component of principals' time must be devoted to strategic issues and strategic planning—the determination of where the firm is going and how it will get there. Since principals must determine the course of the firm, they must be able to think strategically. While a candidate's strategic thinking skills may not have been fully engaged prior to being selected for ownership, each candidate must have the capacity for and the willingness to engage in strategic planning.

Leadership skills. The candidate must be a leader. One useful definition of leadership that is particularly appropriate in design firms is that a leader is one who conceives a vision for a desired future, communicates it to others, and motivates them to help achieve it. Candidates must demonstrate that they have leadership skills and consistently perform as leaders. Their leadership in the firm should be apparent to staff, clients, the profession, the firm's constituency, and the community at large.

Governance and relationship skills. Firms are governed by their owners. Candidates for ownership must understand, support and be willing to assume, without reservation, a role in the firm's governance. This means understanding the nature of governance in the firm. Who will be involved in governance matters? What subjects and issues fall into this realm? When and how are they addressed? What is the dynamic of the governance discussions? How will decisions be made? Since it is likely that governance will be a team effort by the owners, candidates must be willing to improve team-working skills so that they can be effective in executing their governance responsibilities.

Team-working skills. Effective teamwork is achieved by having clear goals, encouraging broad participation in discussions, having the ability to express feelings, addressing causes of problems rather than symptoms, seeking consensus and appreciating deviations, trusting other team members, and

exercising creativity by seeking better ways to do things. In the best of worlds, candidates for ownership will have demonstrated an understanding of these elements and will have used them in other situations involving teamwork. At the very least, they should demonstrate an understanding of the need for and an interest in developing personal team-working skills, prior to selection for ownership.

Personal style and interpersonal skills. Principals must work effectively with others, inside and outside the firm, with partners, staff, consultants and clients. Therefore, candidates for ownership should be aware of their personal styles to ensure successful interaction with those constituencies. Regardless of firm size, firm success is achieved through interaction with others. People have different personalities and different personal styles. Because people operate from their essential preferred styles, they behave differently. They play out their roles and responsibilities in the workplace in accordance with their personalities. It is extremely helpful to understand not only one's own style, but also the personal styles of those with whom one interacts. By doing so, we influence those with whom we interact to make decisions in our favor. The potential for success in interpersonal interaction is significantly enhanced when differences in personal style are understood and skills are developed to enhance interpersonal relationships and exchanges. For these reasons, candidates should have personal styles that foster successful relationships and must be willing to improve their interpersonal skills for the benefit of the firm.

Commitment to the professional development of others. It is a long-recognized premise of effective management, proven in practice, that the further down in the hierarchy one can delegate decisions and actions and have them executed effectively, the more effective the organization will be. This premise not only suggests the advocacy of delegation, but it also implies the need to develop the skills of those to whom responsibilities will be delegated. Candidates must be willing to delegate responsibility and must be committed to promoting the professional development of those to whom they delegate.

Ethics. Candidates should demonstrate ethical behavior, and they should take appropriate action when the performance of others in the firm suggests less than adequate compliance with the norms of personal and professional ethics. Although personal ethical norms are likely to be unstated, professional norms are frequently explicit. The American Institute of Architects, for example, publishes a code of ethics that articulates the canons, standards, and rules by which AIA members are expected to behave.

Contribution to the profession and the community. If the current owners are actively involved in their profession and community, they will want their successors to demonstrate similar interests. Therefore, candidates should understand the importance to the firm's success of such personal contributions, and should commit significant energy to professional and community activities. There are multiple reasons for becoming involved in these arenas. Professional involvement can nurture relationships with other professionals, which may lead to team ventures. It can improve technical knowledge that enhances one's expertise and provide an opportunity to participate in advancing professionals' role in society. Community involvement by professionals offers arenas in which to develop personal presence and presentation skills and creates opportunities to gain information and develop relationships, which may lead to new work. And, like professional involvement, community involvement can allow professionals to play a significant role in the betterment of the community itself.

Investment in the firm. The candidate must understand the fundamental investment needs of the firm, recognize and respect the financial return such investment receives and, above all, be prepared to make the necessary investment as an equity principal. Such commitment is made manifest through contributing personal funds, assigning a portion of future personal compensation, and accepting the financial risk inherent in signing personal guarantees for bank loans, leases, or other debt instruments. Owners capitalize the firm by investing personal funds when the firm is initiated, deferring compensation as required to meet current cash needs, making additional capital contributions, and personally assuming the risk of repaying funds borrowed to meet short-term cash needs. Candidates must be willing to assume these financial obligations of ownership.

Role model for others. Since principals set the example for others in the firm, candidates should exhibit behavior they expect others to emulate. They should demonstrate the behaviors and performance that contribute to the firm's success so that their employees will follow their lead, modeling their own actions accordingly.

Trust. Although it appears last in this list, in the final analysis it is frequently the most important criterion for owners considering candidates for ownership. In executing their daily responsibilities inside and outside the firm, the owners affect the well-being of the firm, and their fellow owners, regardless of the legal form of organization. Owners make decisions every day that affect the firm's welfare. They seek and attempt to establish relationships with prospective clients whose projects can substantially affect the nature, direction, and reputation of the firm. They negotiate contracts

involving the amounts of fees and the scope of services required to earn them. They make project decisions that can put the firm at risk with respect to professional liability. They hire and fire people who have the capability to support or detract from the firm's efforts. They make capital and operational decisions causing the outlay of vast sums. By virtue of their ownership, they have the ability to expose the firm and their fellow owners to serious economic and professional liability. The owners must trust each other, and have confidence that they will be able to trust each new owner to "do the right thing" even without supervision.

What do leaders "look like?" What attributes do they have?

A frequent dilemma in many professional design firms is that the leaders who founded the organization and performed one or more leadership functions brilliantly are not necessarily the best type of leaders to succeed in the next generation. The best successors often can, as a group, provide the full range of leadership attributes as well as, or better than, the founder, although individually, they may lack brilliance in any one aspect. What are these attributes of leadership?

Focus. Effective leaders pay close attention to the people with whom they are communicating. They focus in on the key issues under discussion and help others see those issues clearly.

Communication. Leaders have highly developed communication skills, and so are able to communicate effectively. They can get the meaning of a message across, even if it means devising an innovative way to ensure that the idea is understood.

Trust. Leaders are perceived as trustworthy. This is demonstrated by their willingness to take clear positions, avoid "flip-flop" shifts in position, and follow through on commitments.

Respect. The effective leader consistently and constantly expresses concern for others and their feelings, but also takes care of his or her own feelings.

Risk. Effective leaders are willing to take risks, not on a hit-or-miss basis, but after careful estimation of the odds of success or failure. Their energies are then invested in actions that will foster success.

Bottom line. Effective leaders believe that they can personally make a difference and have an impact on people, events, and organizational achievements. They believe, therefore, that they can have an impact on final, bottom-line outcomes in the organization.

Empowerment. Leaders have a strong need for power and influence, not only for themselves but particularly because they know that it is through power and influence that things get done in organizations.

Long-term view. Visionary leaders are able to think clearly over relatively long spans of time. Their visions, and the more specific goals along the way, are not short term to-do lists but conditions that they are committed to creating over the long term.

Organizational skills. An effective leader can help the organization adapt to change more effectively, attain goals, get its members to work together effectively in teams, and maintain a strong sense of shared values and beliefs.

Culture. An organization's culture is defined by the set of shared values and beliefs held by its members. Leaders develop and inculcate the values that strengthen organizational functioning-adaptability, achieving goals, teamwork, and maintaining the culture-and at the same time help build and support the leader's vision.

Why be an owner? Why seek ownership?

Although there may be as many stated reasons as there are people who state them, we have found that the reasons can be placed in 10 categories that share a central theme: greater control over one's future. They are:

1. Ability to realize one's own goals and follow one's own interests.
2. Greater ability to balance one's personal and professional lives.
3. More direct relationship between effort and recognition for one's professional accomplishments.
4. More direct relationship between effort and financial reward (the opportunity to make more money than is possible as someone's employee).
5. Greater control over one's own destiny, design, and other issues of personal importance.
6. Surviving bad economic times (less likelihood of layoff as an owner).
7. Satisfaction of building one's own practice.
8. Ability to be involved in everything.
9. Failure to fit into an established organization.
10. Desire to work with friends, a spouse, or others of one's own choosing.

Of these 10, the first eight can be accomplished by becoming an owner in the firm in which one is employed, usually in collaboration with others. The last two are not likely to be achievable in such situations and would probably require starting one's own firm.

What should I do?

- Know thyself. Understand why you want to be an owner and determine if you believe you have what it takes to become a successful owner/leader and whether you are prepared to accept the risk and put in the time and effort that are incumbent on owners and leaders. Alternatively, you may prefer to remain a non-owner and become a better and better architect.
- Develop an understanding of the operative principles, practices, policies, and personalities that govern the firm's management and operations, and decide whether they describe a firm in which you want to have a leadership role as part of the ownership group.
- Develop and refine those personal characteristics and professional capabilities and skills that you have learned or believe will be instrumental to your success and selection.
- Demonstrate initiative. Seek and find ways to contribute to the firm's well-being-on projects, in the firm as a whole, and in the community at large.
- Ask questions, express interest, and above all, be a leader.