



TRANSFERRING OWNERSHIP EFFECTIVELY

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Additional thoughts on responsibilities and expectations

Design firms need certain contributions from owners that they cannot reasonably expect to be provided by non-owners. Because they are of utmost importance to the viability and success of the firm and must be provided by owners (although not exclusively by owners), they can be considered ownership responsibilities. These responsibilities are: capital, marketing, management, quality, and leadership.

Capital-The owners are responsible for providing the capital necessary to operate the practice. Start-up capital is required at firm 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. Once the firm is up and running, the firm may require more capital to cover additional expenses associated with funding growth, and cash to meet ordinary operating needs when collections do not meet current 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 risk.

Marketing-The firm exists to provide professional services for clients on projects and it is the owners' responsibility to secure those clients and projects, i.e., to market and sell. Although it is possible to secure the assistance of others in the firm in this effort, ultimately it is the owners' responsibility to feed the firm. In some firms, non-owners who are able to contribute to the firm's well being by fulfilling this essential need are frequently deemed to possess the essential ingredient for ownership.

Management-The firm must look to its owners to ensure the successful management of the firm. They must maintain the viability of the firm so that its operations continue to fulfill tomorrow the promises to its clients that it made yesterday. And, they must see to the production of profit to remain competitive in the marketplace and to provide a return at whatever level they deem appropriate for their investment and risk. As with marketing, the owners can seek the assistance of others at many levels to fulfill their management responsibility: project managers, business managers, etc., but it is the owners' responsibility to ensure that it happens.

Quality-The owners do not have to be the firm's quality controllers, although many are. However, the owners, and only the owners, must establish and assure the level of quality that they want to represent them³/₄design quality, technical

quality, and quality of service. The firm's completed projects will stand in the marketplace as final proof of what the firm is capable of producing; this determination cannot be left to non-owners. The firm's reputation regarding its relationship to clients and others is of equal importance. Consultant David Maister has said that quality service is not the same as quality product. Since the firm's projects³/₄the projects that are the raison d'être for many design professionals³/₄are achieved as a function of its service to clients, the owners must be equally attentive to the quality of the firm's services.

Leadership-The owners must provide the leadership to move the firm toward the realization of their vision. They do it by creating and sharing the vision that they have for their firm, and by performing, setting examples, motivating, encouraging, mentoring, and rewarding others so that they perform in ways to move the firm toward the vision.

EXPECTATIONS

The firm's founding owners usually have an intuitive understanding of their responsibilities; at the very least, they have performed in a way that exhibits a set of de facto "decisions" about them. They have capitalized the firm and assumed the responsibility for its ongoing capital needs. They have marketed and managed the firm at some level to have provided services and produced projects. Problems may arise, however, when the founders expand the ownership to include others, frequently in the next generation, who are not founders and do not have the same intuitive understanding that the founders do. Not having found it necessary to be explicit about their own contributions, founders frequently find it difficult to understand what the firm needs from its owners and, as a consequence, establish criteria and expectations for new owners.

Current owners may find it unnecessary to be explicit about criteria for new owners, believing that they "know one when they see one." Although they usually want new owners to perform and behave in particular ways, they sometimes have difficulty understanding the importance of clearly expressing these expectations. Current owners can be clear about their expectations for new owners' performance by expressing their expectations in terms of their understandings regarding what the firm needs from its owners³/₄the ownership responsibilities.

Although it would be possible to generalize about how firms, in general, have approached this problem, a specific example may be more instructive. In a recent case, the two current owners of a medium-sized firm had identified a key project manager as someone they thought should be brought into ownership. They had not established specific criteria for new owners which they believed the candidate had met; rather, they had a gut sense that the candidate was making managerial and technical contributions (mostly project) to the firm at a level that they believed was appropriate for owners, and they intuited the benefit to the firm of expanding ownership by offering shares to this candidate. They also

understood, however, that if they were not clear about the performance and behavior that they would expect of the candidate as an owner, which was going to be substantially different from what they had expected of him as a non-owner, it would likely lead to disappointment and, possibly failure. **In short, they wanted to foster the candidate's success as an owner, and they understood the importance of clearly expressing expectations to achieve it.**

At a meeting with the candidate, the owners presented and discussed two documents to convey a complete sense of what the offer entailed:

1. A memorandum outlining the essential business elements^{3/4}matters of firm valuation, transfer mechanism, governance, decision-making, roles and responsibilities, compensation, benefits, etc.
2. A memorandum expressing their expectations of the candidate as an owner organized into the following five areas of firm need:

Capital

- Candidate will accept the valuation and payment mechanisms established by the firm for transfer purposes.
- Candidate will assume a proportional share of financial risk, including providing cash capital as required, and assuming personal responsibility for bank loans.
- Candidate will be responsible for contributing to the firm's profitability at levels established by the owners.

Marketing

- Candidate shall demonstrate principal-level marketing behavior.
- Candidate shall develop a personal network of people in a position to directly or indirectly influence decisions regarding new work for the firm.
- Candidate shall participate actively in civic, cultural, and professional groups.
- Candidate shall cultivate a "book of business"^{3/4}which for this firm meant repeat clients.

Management

- Candidate shall develop and demonstrate holistic, principal-level management behavior.
- Candidate shall be responsible for firmwide manpower planning, understanding total firm projections, forecasting staff needs, and providing oversight.
- Candidate shall manage more projects, assuming personal responsibility for managing 25 percent of the firm's revenue.
- Candidate shall assume the responsibility for CAD oversight.

Quality

- Candidate shall be the firm's quality champion and Q.C. Czar.
- Candidate shall share specific project quality control responsibilities with another principal (specifically named).
- Candidate shall organize and assign responsibility for monthly staff seminars on the subject of quality.

Leadership

- Candidate shall actively participate in planning, mentoring, and similar leadership activities.
- Candidate shall adopt principal-level dress and behavior.
- Candidate shall act like an owner, representing the firm's interests and ensuring appropriate employee behavior in the studio.
- Candidate shall develop and display broad perspective regarding firmwide productivity, especially regarding other managers' projects.

These expectations were specific to a particular firm, personalities, and circumstances and would only coincidentally be appropriate for others. Although expressing such expectations might appear so basic as to be unnecessary, in fact they are not. They give new owners a very clear sense of how they are expected to behave and perform, how they will be evaluated, and how their future will be considered by those in control. Since new owners will have a very clear understanding of what success will look like, they will be better able to achieve it. Ultimately, the individual's success will be an important contribution to the firm's success.