AIA

# Practice Management Digest

News & Best Practices from the PM Knowledge Community

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## Features

**Times Tough? HUG Clients!**
How do you unlock the key to higher organizational performance and related profitability? It's simple—you HUG your clients. Hear, don't just listen to, what they are saying. Understand how they perceive your performance and what it takes to improve. Then use that understanding to Generate a new model of client-based services and solutions.

**Ownership Transition in an Architecture Firm**
In a privately held firm, the process of transferring ownership to the next generation is often difficult and time-consuming. Many questions will be addressed in an ownership transition plan that provides for a smooth transition and allows the present owners to gradually reduce their involvement.

**Dealing with Aggressive Negotiators (members only)**
AIA Best Practices presents advice for managing negotiations with aggressive people. How does one maintain composure? When is it appropriate to fight fire with fire? Choosing the right option can mean the difference between reasonable terms and onerous ones. AIA Best Practices represent the collective wisdom of AIA members. They are a compendium of the practical knowledge acquired by AIA members in the real world of architecture practice—knowledge gained from experience, immediately applicable to a task at hand.

**It's Pruning Time!**
It's a good time to think about doing some pruning. And we're not talking about pruning the trees in your yard! Some people working in A/E/P and environmental firms clearly excel in the performance of their duties. Others are acceptable (even if not outstanding) performers. And some people fail to meet expectations entirely. Some pruning of these last two groups will help a firm grow and prosper.

**The Art of Effective Delegation**
Effective delegation is perhaps the single most powerful high-leverage activity in management. The do-it-yourself approach will keep you engaged in myriad low-priority, nonenergized activities. On the other hand, if you learn how to effectively delegate to others, you will exponentially expand your productivity and effectiveness.

## News

**Consultants' Corner**
Practice Management Digest is introducing a new feature: Consultants' Corner. To have one of our contributing management consultants address your burning practice management question, send an e-mail to practicemanagement@aia.org.

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**Letter from the Chair**
Amy M. Yurko, AIA, 2004 PM Advisory Group chair, discusses Advisory Group changes and announces this year's exciting events for the Practice Management Knowledge Community.

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## *Tough Times? HUG Your Clients!*
by Tom Larsen, AIA

In November I wrote in the Practice Management Digest that in a down market, successful firms don't stand still hoping for a quick turnaround. Instead, they face reality, and I recommended that you should, too, by firing poor-performing clients and realigning and rejuvenating your organization.

In 2004, I say you should HUG your clients. Do I suffer from schizophrenia? Or just living up to the old adage that the world hungers for one-armed consultants so they cannot suggest one thing with one hand and something entirely different with the other?

The correct answer is neither. Beside staff, your clients are your firm's only assets. While the bottom 20 percent of clients can destroy your firm, the top 20 percent can lead you to the Promised Land—IF you let them.

How do you unlock the key to higher organizational performance and related profitability? It's simple: HUG your clients. **Hear**, don't just listen to, what they are saying. **Understand** how they perceive your performance and what it takes to improve. Then use that understanding to **Generate** a new model of client-based services and solutions.

**Hear** What Clients Have to Say

Interview the 20 percent of your client base who generate the most profit for your firm. While I do not want you to ignore the rest of your clients, ensuring that you satisfy this top echelon goes a long way toward guaranteeing success. I cannot overemphasize the importance of an active intelligence-gathering program based on client listening.

How often do you take your clients to lunch and listen to their business and organizational aspirations and concerns? Too often, in the heat of a project, we focus on solving purely tactical issues and ignore the real make-or-break strategic issues our clients face. A slow market, however, is the perfect opportunity to begin a structured, client-focused market research program.

Active client listening serves three purposes. First, it demonstrates to existing and potential clients that you are fundamentally interested in understanding and improving their organization. How many times do sub-consultants approach you and ask what they could do better? I would guess almost never because many in our industry believe doing so invites criticism.

Second, it provides real insight into your strengths and weaknesses vis-à-vis your competition. Think of the advantage this intelligence can provide to your firm—namely where, when, and how to compete. Finally, it gives you new ideas for services not previously exploited. Successful innovators in mature markets find that 90 percent of their successful new services come from their existing client base!

**Understand** How You Are Perceived

Listening to what clients say is not the same as understanding the significance of what they say. To act on what you hear, you must be willing to put aside any praise received and focus on the issues raised that demonstrate underperformance relative to your competition. It is human nature to want to rationalize these comments away. DON'T!

In fact, at this point it is often helpful to talk to the next quintile (20 percent) of your client base. You may find that poor performance on these very same factors eroded profitability with this client sector. Fixing these issues, particularly those consistently reported by all clients, are what separate exceptional performance from mediocrity.

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First, Fix the Problem

So you understand what needs to be fixed; now figure out how to fix it. I have seen too many design firms and Fortune 500 businesses paralyzed by trying to solve a problem with a perfect solution. Fix the problem before you try to develop an overarching "system" that solves all the issues that clients raised. As General Patton once said, "A good solution applied with vigor now is better than a perfect solution applied 10 minutes later."

Put in place the quick fixes that clients can see first and then move on to the more difficult ones. From a client's perspective, nothing is more frustrating than identifying ways for your provider to improve and then seeing no tangible performance improvement. Inactivity sends a message that what your client said did not really matter.

**Generate** New Client-Based Solutions

Only after you have quick fixes in place do you turn your attention, if necessary, to big "systems solutions." Even if you feel the need, don't go for the "home run" in implementing new solutions or services. By this I mean don't announce to your entire client base that you are going to change your service offering. You cannot effect change that quickly and will end up breaking promises to your most profitable clients.

Rather, I recommend that you work with a select group of your top quintile—those known as the '"early adopters." These are clients willing to try new service delivery models and get you to the Promised Land of new markets and services. Once you have perfected the service delivery model with these key clients, you can start to share it with the rest of your market.

2004 will not offer the AEC market a quick turnaround. To prepare your firm for the next upturn, focus not on what markets are like today but on what they are likely to be tomorrow. Only by proactively hearing and understanding your clients' needs—and using them to generate new or improved solutions—can you hope to find the Promised Land.



*Tom Larsen, AIA, is responsible for Larsen Associates' consulting practice, helping AEC companies create breakthrough strategies and marketing and operational plans that lead to long-lasting performance improvement. He appreciates your questions and comments and can be reached at 203-878-8587 or trlarsen@larsen-associates.com .*

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## *Ownership Transition in an Architecture Firm*

by Lowell V. Getz, CPA

In a privately held firm, the process of transferring ownership to the next generation is often difficult and time-consuming. Sometimes, there is an obvious leader that the second generation willingly accepts. At other times, there are several qualified candidates who undergo training and development until a leader emerges. In some cases, a leader may be brought in from the outside.

Considerable thought needs to be given to the process. Questions such as the following need to be addressed: Should I sell to a larger firm that might buy my firm on more favorable terms than an internal transfer? Are there people in the firm who are able and willing to assume the burdens of ownership? How much longer do I intend to keep working, and under what conditions? Why would anyone buy my firm when they can leave to start their own?

Most of these questions will be addressed in an ownership transition plan that provides for a smooth transition and allows the present owners to gradually reduce their involvement. The first step in developing the plan is to identify the successors and determine their interest.

**Reconciling Different Goals of Owners**

The process of ownership transition recognizes that the goals and objectives of buyers and sellers are different. Sellers are generally retirement-minded and concerned with estate planning, since the bulk of their estate is often comprised of their ownership interest in the firm. Retiring owners are also faced with the prospect of paying a capital gains tax on their investment. Sellers generally hope to sell at a premium above fair market value, which is defined as a price that is fair to both buyers and sellers. They justify the premium price as compensation for years of struggle to achieve the firm's present status.

Buyers are generally younger and face different problems. They are buying homes and raising families. Usually they have no other source of income and require all of their salaries for living expenses. Many do not understand why it is important for them to become owners. Buyers often hope to buy at a discount below fair market value because of a perception that this is a reward for their years of effort.

A successful transfer can only be accomplished in an atmosphere of mutual trust. Sellers are trusted to carry out the plan and turn over increasing responsibility to the new owners. Sellers need to recognize that the purchase price has to be affordable. Buyers are trusted to continue to perform at a high level so as to generate the profits necessary to accomplish the transition. Buyers need to understand that there are risks, as well as rewards, of ownership.

The plan assures the continuity of the firm and significantly impacts client relationships. Clients are much more likely to continue working with a firm that is gradually transferring to the next generation rather than facing an abrupt change. In fact, the next generation within the client's organization is likely to be making a similar transfer. This allows individuals of similar ages and experiences to begin working together to extend the relationship into the future.

Another advantage of a smooth transition is that it allows older owners to gradually withdraw their investment while still contributing to the success of the firm and training new owners. This is much more satisfactory than paying off the older owners after they retire. Younger owners tend to forget the terms of these agreements and may resent having to make payments to those who are no longer contributing to the firm's success.

In addition, bringing buyers into an ownership position early allows them to spread their financial obligation over a longer period of time, which eases the burden. It also gives the younger people an incentive to stay with the firm and to help it grow.

**Funding the Buyout**

Because of the limited resources of new owners buying in, the buyout options are often limited to using bonuses or bank loans.

Bonuses are the primary source of funds. However, this means using after-tax dollars, and individuals often need these funds for personal expenses. An alternative is to expect the new owners to forego salary increases as a source of funds.

Some firms expect the new owners to pay for their stock with funds borrowed from a bank. The loans are then repaid out of future bonuses. If bank loans are used, the firm should make arrangements with its bank to permit employees to borrow at attractive rates. The stock is used as collateral for these loans, and the bank usually asks for the firm's guarantee. In order to avoid any repayment problems, it is helpful to set up a payroll deduction plan whereby the funds go directly to the bank from salary or bonus checks.

**Keys to a Successful Transition**

Following are some considerations that will assist in a successful internal ownership transition:

- **Work within a strategic plan**. The ownership transition plan is a subset within the firm's overall strategic planning process. Ownership transition is an important phase of the strategic plan.
- **Begin the transition process early**. It is never too early to begin the transition process. Some owners are interested in early retirement, and others may be contemplating a second career in an unrelated activity. A gradual transition also allows for a change in leadership if the wrong person is selected at first.
- **Develop skilled managers**. New owners need management as well as technical training. That is, they must have an understanding and appreciation for financial management, human resources functions, marketing, and other skills of a well-developed manager. It may be necessary to encourage the new owners to take courses and attend seminars to develop these skills.
- **Set a realistic stock price**. Develop a stock valuation formula that is easy to understand and fair to both buyers and sellers. An alternative is to begin with an independent valuation of the stock and use the methodology developed by the appraiser as a formula for valuing the stock in future years.

**Advantages and Disadvantages**

Internal ownership transition offers several advantages. It encourages greater effort since new owners will work harder for a firm that rewards them with an ownership position. This, in turn, improves employee morale and establishes loyalty to the firm. Internal ownership establishes a continuity for the firm that is easier for clients to accept.

The disadvantages of an internal transition are the uncertainty that the next generation will be successful and complete the transfer. Internal transition does not offer an immediate payout to current owners. Also, profits must be sufficient to pay bonuses for stock purchases as new owners rarely have funds of their own with which to buy stock.

**Communications Program Essential**

A critical success factor in ownership transition planning is the establishment of a communications program. This program is designed to help new stockholders understand the benefits as well as the risks of ownership, and why it is important for them to own stock in the firm. Normally, the objective of stock ownership is to achieve a return on that investment. However, this is not the case in a closely held firm that usually pays no dividends. Instead, certain intangibles—such as the stature of being a firm leader and the likelihood of taking over management of the firm in the future—are what drive new owners to sacrifice immediate spending for long-term career objectives.

Sharing financial information on the firm is essential when offering ownership to new people. Providing a monthly or quarterly review of financial information, such as income statements and balance sheets, keeps owners informed on the progress of the firm. In many firms, new owners are briefed periodically by older owners on the outlook for the firm and what needs to be accomplished in order to meet objectives for the future.

New owners are also informed of how the value of the stock is determined. They need to be able to relate the value of the stock to the firm's recent financial history. At the same time, discussions should be held on the options available for financing the stock purchases.

**Conclusion**

An ownership transition plan is an important document that establishes a procedure for transferring ownership within a closely held surveying firm. It is helpful to begin the planning process early and have the plan in place so that transition is not forgotten or put aside as owners deal with more immediate or pressing problems.

*Lowell V. Getz, CPA, is a financial consultant to architecture, engineering, planning, and environmental service firms. He has written, taught, and lectured widely on financial management and specializes in ownership transition planning. Getz is the author of An Architect's Guide to Financial Management (1997) and of portions of the "Financial Operations" chapter of The Architect's Handbook of Professional Practice, 13th ed. He can be reached at cpa@lowellgetz.com.*

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## *It's Pruning Time!*

By Mark Zweig, President and CEO, ZweigWhite

You know what? Turnover is not always so bad. Sometimes people just don't keep up with the firm. There are all kinds of reasons for it. Maybe they got tired. Maybe they got turned off. Maybe they weren't the right people for the job in the first place. No matter. The bottom line: It's a good time to think about doing some pruning. And we're not talking about pruning the trees in your yard!

Some people working in A/E/P and environmental firms clearly excel in the performance of their duties. Others are acceptable (even if not outstanding) performers. And some people fail to meet expectations entirely. Some pruning of these last two groups will help a firm grow and prosper.

The difference between high performers and low performers can be illustrated by the following example. Consider Workgroup A. With a team leader or department head and eight additional staffers, this workgroup has an average raw labor rate of $28 per hour and an effective multiplier of 3.0 on all work it performs. It is 72 percent billable. It creates an annual income for the firm from its output of 9 people x 2,080 hours x 0.72 x $84 = $1,132,185. Another way to look at it is $125,798 per employee.

Now let's assume that the firm does not have problems finding work for these people. But by most standards, its utilization (as a group) is low. Perhaps the manager is someone who is so busy managing that he or she isn't working on jobs. Or perhaps the manager is strictly a 9-to-5 person and, therefore, no one else works harder than that. Or perhaps the manager is a great doer and quite billable individually but does not hold his or her people to the same standard and many of them are slackers. In any case, someone is not (or some people are not) doing what they need to do.

Let's look at Workgroup B. This group also has a team leader or department manager and eight additional staffers. But this group's leader is highly motivated. He loves his work. It's not a chore but instead a way of life. His people feel that they are winners. They love what they do as well and challenge one another to see who can put out the most. The entire team looks for ways to do things faster and better. This workgroup has an average pay rate of $30 per hour. It has an effective multiplier of 3.07 on its work. It is 80 percent billable. It creates an annual income from its output of 9 people x 2,080 hours x 0.80 x $92.10 = $1,379,290, or $153,254 per employee.

The difference between Workgroup A and Workgroup B in this case is $27,456 per employee per year in income, or $247,108 total annually! And this is just for a single nine-person workgroup! You can argue with me if you want about the numbers in my example, but I can assure you that this kind of difference in performance between similar workgroups inside planning, design, and environmental firms is something we witness everyday. And it can be attributed directly to the people—the leader and the worker bees.

And that brings us right back to pruning. If you don't push yourself and your managers for excellent performance, you will have all kinds of workgroups performing at Workgroup A levels when what you really want are workgroups performing at Workgroup B levels. Why are you tolerating this mediocrity? How long will you tolerate it? Are you too nice? Are you letting friendships get in the way? Do you have warped ideas about human resources management that say all turnover is bad? Do you want to run a country club or a company that grows and makes profits? Do you really care about the people who are killing themselves trying to make the firm successful, or do you care more about those who say the right things but don't act the right way?

Maybe NOW is the time to finally do something about your marginal or poor performers and take a chance on finding some new, energized, committed,

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passionate people.

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## *The Art of Effective Delegation*

By Steve L. Wintner, AIA

"It's a lot easier and faster if I just do it myself." I'm sure you have all said this at least once in your career. I know I have, and this approach is OK if you are willing to accept that it will severely limit your productivity. It will also keep you engaged in myriad low-priority, nonenergized activities. On the other hand, you can choose to learn how to effectively delegate to others and exponentially expand your productivity and effectiveness.

Effective delegation is perhaps the single most powerful high-leverage activity in management. It enables you to direct your focus and energy to other high-leverage activities that only you can do. This is the primary goal of anyone who aspires to a management position. Until you master the art of effective delegation, you will be limited to being a single producer.

If you dissect any firm, you will see that those individuals who are in the top management positions are those who rely upon their ability to effectively delegate to others. Large firms, especially in this industry, started as small firms that grew larger over time. Employees can develop professionally if they will take initiative when opportunities are provided, accept responsibility, and be willing to be held accountable for their performance of the assignments delegated to them. This in turn affords the firm the opportunity to grow by expanding the decision-making management capability of its staff.

Stephen Covey, in his book *The Seven Habits of Highly Effective People*, suggests two types of delegation:

- **Gopher Delegation** is telling employees what to do, how to do it, when it needs to be done, and then sitting at their elbow and making sure they are doing what you asked. Under this type of delegation, employees' opportunity to develop professionally is limited.
- **Stewardship Delegation** is focused on results, not methods. It allows the other person to choose how to accomplish the assignment and holds him or her responsible for the results (accountability).

Stewardship delegation requires trust, and trust is the highest form of human motivation. It brings out the best in people. But it takes time and patience. Admittedly, this involves more time than doing the task yourself. This is time well invested because you are investing not only in the growth and development of an employee but also in the firm. In this process, you are demonstrating your confidence in your staff, which raises their self-esteem and increases your productivity leverage. It's a 100 percent win-win proposition for you, for them, and for the firm.

Stewardship delegation involves more than contribution; it requires commitment. Keep in mind the distinction between contribution and commitment. (For example, consider a breakfast of bacon and eggs—the chicken is making a contribution, but the pig has made a total commitment.)

The following are the essential components of an effective delegation process:

1. Identify the appropriate person(s) to whom you will delegate.
2. Clearly communicate (until understood) the full details of the assignment being delegated, the desired results, and any deliverables to be produced.
3. Explain any guidelines or parameters they will need to operate within, including any restrictions or "failure-paths" to keep them out of trouble and to avoid potential problems.
4. Identify all known available resources (including yourself) to assist in successfully completing the assignment.
5. Set up accountability standards of performance that define the consequences for exceptional vs. poor performance.

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6. Define the level of initiative and authority appropriate to the delegated assignment.
7. Create a methodology for monitoring progress to ensure that the delegated assignment is on-track and to alert you if it gets off-track.
8. Define a means for measuring the successful completion of the assignment—basically, whether it has met expectations for the desired results.

In short, to enhance your leverage, increase your discretionary time, and provide opportunities for growth and development of your staff, learn to master the above steps to effective delegation and learn to practice to "only do what only you can do."

*Steve L. Wintner, AIA, is the founder and principal of Management Consulting Services, a Houston-based firm specializing in professional design firm management. He can be reached at 713-784-0290 or at mcspc@ev1.net.*

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## Letter from the Chair

### The Year Ahead for the PM Knowledge Community

by Amy M. Yurko, AIA, 2004 Advisory Group Chair, AIA Practice Management Knowledge Community

Welcome to 2004! With this year's first issue of Practice Management Digest, I would like to take this opportunity as incoming chair to share a few thoughts.

**PM Advisory Group Changes**

The first priority is to express sincere gratitude and bid farewell to Robert P. Smith, AIA, 2003 chair emeritus of the Practice Management (PM) Knowledge Community Advisory Group (AG). In addition to sharing his extensive knowledge of practice, Robert has provided both expert leadership and warm advice to the AG over the past five years. In 2003 specifically, he initiated a collaboration between the PM Knowledge Community and the AIA South Atlantic Region (SAR) to provide a joint conference in Savannah, and he kicked off the Practice Management Digest, orchestrating its content and distribution throughout the year. Please join the 2004 Advisory Group of the PM Knowledge Community in conveying a heartfelt thank-you to Robert Smith.

Taking Robert's place as the 2004 chair emeritus is Charles Nelson, AIA, FRAIA, who will also assume management of the Digest. As the 2003 chair, Charles provided the leadership that secured multiple venues for valuable programs throughout 2003, culminating in the successful fall conference in Savannah. We look forward to his insights and advice as we move forward with our programs and activities in 2004. We also recognize Graphisoft, our official sponsor for 2003, whose generous support of our programs and events enabled us to have a most successful year.

Looking to 2004 and beyond, we welcome our newest AG member: Barbara M. Price, AIA. Managing principal of LS3P Associates' Charlotte office, Barbara served as 2000 president of the AIA South Carolina Chapter and as cochair of the 2002 AIA convention in Charlotte. She is a welcome addition to the Advisory Group, and AG members Andrea Cohen-Gehring, AIA; Grant A. Simpson, AIA; Charles; and I look forward to working with her to fulfill the ongoing needs of our membership.

**Our 2004 Focus: Strategic Planning**

As many of you know, the PM Knowledge Community AG orchestrates an annual survey of members to learn about their needs and interests. The results help us to plan content for upcoming programs and activities that will specifically address those needs and interests. Our most recent survey indicated a need to share knowledge about strategic planning, and this has become our focus for 2004. In addition to relevant articles in the Practice Management Digest, we are planning preconvention workshops and our annual Management Breakfast with speaker Scott Braley, FAIA, in conjunction with the AIA 2004 National Convention and Expo in Chicago.

We are also excited to announce that our annual fall conference will be in collaboration with AIA California Council's Desert Practice Conference, October 29-31, in Indian Wells, Calif. The PM Knowledge Community component of the joint conference will be a Strategic Planning Charrette, which will lead participants through the entire process and interactively create a framework for completing a strategic plan for their own firms. Firms of all sizes, positions, and degrees of development will be addressed. Watch for more information on this valuable event in the next few months. The joint conference title is "Controlling Chaos: How Will Your Firm Survive?"

For more information on PM Knowledge Community activities, events, and opportunities, watch your in-box and visit www.aia.org/pm.

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