

Engage Your Future Firm
Leaders: **NOW!**

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Planning for succession is just the first step in a chain of events that can generate new leaders who embrace a key leadership role within the firm.

There is no one formula for succession, but the goals of any leadership change are similar – to retain the core values of the business, to retain and build on your client base and design capability, and to keep the business operating smoothly according to its original vision. Having said that, if you aren't clear on who your next leaders will be – who will sustain your design values and capability, who will nurture your clients and who will drive the business going forward – you are not on your own!

The vast majority of architecture practices have no succession plan in place whatsoever. Management for Design routinely finds that only one in 10 businesses have a plan in place. Of those that do, execution typically occurs in an ad-hoc and spasmodic manner. No amount of management advice will change this but, in our experience, those architectural businesses that have successfully transferred the leadership to new principals and directors have spent many years building and cultivating a culture that enables succession to occur seamlessly. *Leadership transition is an evolution.*

Leadership in architecture

Architectural firm leadership transitions differ from most other businesses. Some of the traits that differentiate their transition from traditional businesses include:

- Quite often the leader is *the face* of the business and is seen as the key initiator of design and client relationships.
- Principals are typically very engaged in the client relationships and design outcomes and have a hard time separating themselves from the day-to-day activity of the business.
- Because owners tend to keep finances very close to the vest, potential successors don't understand the business side or the financial status of the firm.
- Effective business management is considered secondary to other considerations including design capability, client relationships and delivering projects.
- Profit and profitability can take a back seat to doing producing a great design or making an impact.
- The entrepreneurial drive of the founders is often not found in the second generation. The results: entrepreneurs are replaced with people who don't like to take risks and don't necessarily have the same motivations
- Client relationships tend to be deeper, stronger, and more personalized than they are in many other industries.

All in all, it's easy to understand why architectural businesses struggle with transition and letting go of their businesses – businesses that are built around unique projects and are an expression of personal creativity, energy and hard work. Not only that, but owners need to come terms with the fact that they are

working with a generation of employees who are accustomed to moving about in search of new experiences and opportunities for professional and personal development. Many of the most talented among them would have no qualms about leaving for another firm or even starting up a competing studio of their own – and it's never been easier to establish yourself in your own business in today's technology focused environment.

The difference between leadership and ownership succession

Typically there are two fundamental components of succession – leadership succession and ownership succession. These are not the same. Ownership is a legal, financial, valuation, and accounting issue. Leadership is how you conduct your business, retain your clients and people, develop your new clients and manage your operations. For a successful transition, you need to execute your leadership transition and your ownership transition in parallel. Developing your next generation of leaders is by far the more complex and challenging of the two tasks.

Building a culture of succession

It's not something that happens when the existing owners decide that they need to let go or pass on the ownership to the next generation. Successful and sustainable succession occurs when succession is built into the culture of the business and is built on the existing leaderships' desire to share. Fundamentally, the business embraces the following characteristics:

- Trust and openness
- Sharing of information and rewards
- Identifying and fast-tracking standout performers
- Collaboration
- Innovation
- Personal and professional development
- Accountability and responsibility
- Integrity
- Letting go of design decisions and client relationships
- Promotion from within

In multi-generational practices these elements pervade the organization and, coincidentally, are inherent in a performance-driven culture. Most businesses will already have elements of each of these happening but to various levels of success. Those that do all of them well continue to thrive, have sustained success into the future, and successfully navigate changes in leadership. Keeping an eye on these core components affects your ongoing management and recruitment decisions and the year-to-year management of your business.

Identifying future leaders

Young people today are more loyal to their own careers and their profession than to their employer. In their experience companies come and go, as does their employment, at a fairly rapid pace. The only way they can have some control over their own destiny is to be independent: either move among practices to find what they want – to gain different work experience, to work on different project types – or become owners fairly early.

The most talented young professionals are educated about the world, independent thinkers, and somewhat impatient for more responsibility and financial reward. **They aspire to early ownership.**

“If you want to keep them, you must make it clear that the ownership path is open to them.”

- Retiring Firm Partner

The drivers of success in most architecture businesses encompass client relationships, design capability, project delivery capability and secondarily financial and business acumen, people management innovation. Typically, your future leaders stand out and demonstrate their capability early. They will embrace your cultural values and have great design, client relationship skills and take responsibility for the delivery of key projects. No doubt they are already planning their way to a position of influence, so get on the front foot. In our profession, and in today's age, opportunity abounds and typically they may have had only 5 years (or less in some cases) management experience. *Start the conversation.*

When you are recruiting, as difficult as it may be, recruit for ‘cultural fit’ and attitude first, and then skills.

The Key Steps

Leadership succession is fundamentally about identifying, leveraging and nurturing the talent that the organization already possesses by developing it to its full potential. Although there is no one way to succeed in nurturing your next future leaders there are some foundations which need to be in place. Some of the key elements that need to be in place are:

1. Articulate the opportunity

The current leadership, and especially the key principals, need to articulate and demonstrate that an opportunity exists. Talk about your values, what drives success in your business, what you look

for in your people, your own path to success and leadership. Explain what it takes to be a leader in your business.

2. Provide the opportunity and guidance

Communicate your aspirations and your expectations to your future leaders and explain how you see them contributing to the ongoing success of the business – how you see them providing direction and leadership across the business in design, client relationships, delivering projects, innovation and talent management et cetera. Develop a plan for exposing them to the operation of the business outside of the realms of architecture – for example, financial performance, business systems, preparing proposals, fee structures and so on. Mentor their design contribution and client relationships skills. Share key decision making with them.

3. Openness

Although this is sometimes difficult, you need to involve your future leaders in the key decisions affecting the business. You need to start letting go of making all these decisions and allow your future leaders to set their own course. Provide them with the guidance and information necessary to make informed decisions around recruitment, future projects, their clients and new ways of working.

4. Put in place performance expectations

All strong performance begins with clear expectations. Set the criteria for leadership – that way everyone understands the expectations. Typically, the more capable individuals thrive on performance criteria and knowing what drives success. Performance criteria need to be closely aligned with the business success factors and there should be both short-term and longer-term expectations around what drives the business performance – for example, financial performance, work generation, design outcomes, strategy, people development, talent identification, innovation.

5. Ownership

Clearly, establish your criteria for ownership and paint a picture that includes a conversation around ownership and a stake in the business – whether that be immediate or down the track. That is ultimately what you are looking for. Explain the valuation methodology your business uses, the valuation criteria and the path to ownership. Discuss and work out how transitions are timed and financed

Successful succession is an indicator to your people that the business values the mobility of internal talent and promotes an environment for building long-standing careers. Having a transparent succession process has many benefits, including increased employee engagement and retention and a broader view of talent.

Ownership Succession

Leadership and ownership are intrinsically linked. In order for succession to truly work, leadership needs to incorporate ownership. Sometimes though, the up-and-coming generation does not see ownership as the pinnacle of their careers as previous generations did, and convincing them to become owners is perhaps the most difficult challenge in ownership transition. What you see as the opportunity of a lifetime, they see as a commitment they don't need.

The challenge becomes to make ownership attractive – to change the culture of the firm and adjust the ownership model in favor of those potential buyers. This typically involves:

- Less restrictive ownership models
- More transparency
- More sharing of authority

In the past, principals might wait 10 years before giving younger employees decision-making authority, but that is simply not going to cut it today. Owners must train themselves to see the transaction through the eyes of next-generation buyers and, frankly, stop wishing they behaved as the current owners. They aren't and won't be. Perhaps you are counting upon a next generation that is eager to take the reins – but guess again. You may find ownership a tough sell.

Problems

There are numerous reasons that leadership and ownership transitions fail, but the vast majority come down to just a few factors.

Existing leadership dynamics

The dynamics of the existing leadership are not working. This can occur when there is unequal contribution or perceived inadequate contribution. It's difficult for this not to affect the culture of the business and affect future leaders' transition aspirations.

Leadership

The current owners have been so busy managing the firm and making all the decisions, that they haven't spent enough time or thought to develop the people who should be ready to take over. The most serious problems are leadership problems, not ownership problems.

Financing

The owners approaching retirement still own a large percentage of the business. There aren't enough buyers in the firm with the resources to buy them out because the younger people have not been investing in the firm and have other financial commitments.

Current owners can't bear to let go

They may be prepared financially, but emotionally they still want to be the one in charge.

The next group of leaders has not been prepared

They haven't had enough opportunity to develop the necessary leadership or management skills, or they don't have a good understanding of the business aspects of running the firm.

Potential successors can't afford to buy in

The business hasn't been funding the transition over a period of time: younger employees are not likely to have the independent resources to purchase the firm.

The business waited until it was too late to create a plan

Requirements for a smooth transition have not been considered as part of the firm's ongoing business planning.

Start the process- NOW!

If you are an owner of an architecture business and are considering your successors ask yourself the following questions:

- Why do you want successors?
- What are your options?
- Is external transfer an option?
- How much time do you have?
- Where will the funding come from?
- What do the potential owners want?
- Where is your firm generationally?
- What's unique about your firm?
- Do you need help?
- Does your business have a culture of succession?

We have encountered plenty of discussion and material on ownership and leadership succession that have led nowhere. Unfortunately, there is no formula for success, as no two architecture businesses are the same – and there is no magic bullet for when you decide the time is right!

There are, however, fundamental principles that will lead to a more effective, seamless and harmonious journey. These are shaped by a studio culture that engages your people beyond the project-to-project activity. Embrace these characteristics and succession will happen naturally.

Importantly, if you are struggling with succession in your business and can't get the traction and results you need to move forward then **DON'T WAIT!**

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