

Advice to Potential New Principals

So, you have been invited to become a principal in your firm? Congratulations! Now, what can you expect? Are there lessons learned from other design firms who have successfully gone through internal ownership transition?

Yes, there are.

Our consulting firm completed a benchmark study a few months ago on how architecture firms are handling the ownership succession process involving one or more founders who are near the end of their tenure.

The firms were located all over the U.S. (Northeast, Southeast, Southwest, Midwest, Northwest, West), and ranged in size from 25 to 190. Eight of the participating firms are recipients of AIA National Firm Award. What these firms had most in common was a high quality design orientation. We call these Design-First Firms.

In addition to this benchmarking research, through our consulting engagements we have counseled many design firms who were going through internal ownership transfer. From the benchmarking research and our hands-on consulting experience, we can offer a perspective that might be useful, as you take the next steps. Here are six conclusions:

1. Expect to bring your own money to the initial purchase.

While many firms use profits to fund the internal ownership succession, it is also not uncommon to ask incoming owners to partly pay for the initial share purchase out of their own pockets. If you don't have enough savings, you may need to get a loan from a bank, or an equity line of credit on your mortgage.

2. Expect to forego bonuses for a few years.

As you continue to increase your shareholding in successive years, you can use your bonus to make the purchase. Yet, in some situations, the bonus covers only part of the cost to purchase the shares; and the incoming buyer signs a promissory note with the firm to pay in installments over 3 to 5 years.

The financial obligation can feel burdensome. Don't get overwhelmed! You should take the long view: once you're fully 'bought in,' you will enjoy the financial rewards of being an owner.

3. Recognize that you won't be able to choose your partners.

The current principals decide who will be elevated to principal. The next generation of leaders will need to build bonds with their peers, who are also being brought into ownership. You will need to make a concerted effort to establish trust and rapport—just as if you chose each other.

4. Expect that as a new principal, you won't have as big a say as you might like.

The current group of principals have been accustomed to making decisions, and a 'newcomer' principal is often seen as a rookie.

So, be judicious in advocating for change early on. Instead, spend the first year just getting familiar with governance and management issues, and what it means to be a principal.

5. Expect that you will have to grow a broader skill set than you currently have.

People are promoted often based on skills as designers or project managers. Yet, as principals they need to be well rounded: to understand how to run the business, to deal with staff issues, to win new work, and to take care of clients. Being a leader of a firm requires different skills than being a designer or a manager.

Consider taking a general business class at a local university extension or a community college. Also take advantage of education and training offered by the AIA and its certified continuing education providers.

6. Plan to work harder than you ever have before.

Being a principal in a firm is a big job. In addition to leading projects and taking care of clients, the firm itself needs to be nurtured, and new business needs to be created. All of this takes more than a 40-hour week.

In addition to hitting your chargeability target of 60-80%, you will need to make time for business development and representing the firm in the community.

Concluding Thoughts

Being an owner / principal in an architecture firm is a sought-after goal of many architectural practitioners. It gives another dimension to a satisfying professional career; as a principal you're helping to shape the firm to which you have committed. Embrace the opportunity, pursue every chance to grow and develop yourself, and live your vision!

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