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Implementing an Ownership Transition: I Built a Firm—So How Do I Get Out?

by Richard N. Pollack, FAIA, FIIDA

Many design professionals believe that creating their own firm would be the pinnacle of their career. Their dream is to advance their design skills and have control over their own professional destiny. But sometimes, the all-too-soon realization is that starting a business is not easy, running it is more than a full-time job, and there is no guaranteed outcome of success.

We all know that becoming interior designers and architects is not the clearest path to making the most money, but for those of us who love it, the career satisfies our personalities and innate capabilities. Starting and running a firm is often the mechanism for combining design sensibilities and increasing compensation. But at some point you will want to leave your own firm, either for retirement or other pursuits.

Ownership transitions cannot be snap decisions, even within a successful firm. You have to make a conscious decision to leave—long before you are ready to do so. The biggest problem facing exiting firm principals is delaying the decision until only a few years before they want to leave—that does not work. In order for the firm to continue to be successful without its founder, a thoughtful transition needs to be implemented, especially to secure a positive legacy.

I started my firm in 1985 and made the decision in 2000 that I wanted to leave for new adventures by 2012—a 12-year planning horizon. I handled the ownership transition process just like any five-phased design project:

- Programming (PG): develop criteria that have to be understood and solved in order to begin working toward a solution.
- Schematic Design (SD): consider various test options that begin to solve the programming criteria.
- Design Development (DD): drill down into details of the options that lead toward an appropriate result.
- Construction Documents (CD): retain consultants with expert knowledge of the disciplines needed to document the solution, collaborate with stakeholders, and work to an effective project budget.
- Construction Administration (CA): execute the project.

For my transition, the PG phase involved sharing the 12-year planning horizon with senior staff and then the whole firm. I developed key planning components, which needed to be solved to create a successful transition plan. A future leader needed to be recruited, since such a person did not already exist on staff. I had to investigate various options for financial and organizational structures to support my personal and financial goals, and also determine what systems the firm needed to operate without my continuing contributions. The firm's ability to generate work and revenue without the founding principal's business development efforts was also a factor to consider.

A recruiting effort for the future leader began during the SD phase, using in-house resources and a hired recruiter. Meetings were held with our knowledgeable CPA to understand various ownership transition financial models, such as internal sale, external sale, and an Employee Stock Ownership Plan (ESOP).

The future leader was recruited and hired to kick off the DD phase. A detailed review of the transition's financial options led me to focus on an ESOP. The ESOP approach connected well with my philosophical and financial goals. My hippie, socialistic tendencies led me to pursue this plan because staff would own stock in the firm without purchasing any stock. Too many young professionals do not save money, and the ESOP "makes" them save.

The CD phase began with hiring an ESOP consultant to establish the plan and to explain the nuances to all staff. We then began to implement the financial components of the ESOP. To take over my responsibilities, new financial and legal systems were discussed and applied. Specifically, senior staff was trained in banking relationships, financial oversight, professional service contracts, and corporate governance. This developed a radically different business development approach that was less reliant on one major rainmaker—me.

Concluding with the CA phase, a staff meeting was held at least once each year to explain the ESOP and to further explain plan benefits for both myself and the firm. At this point, consistent, open communication is critical to success.

The most interesting reactions to my ownership transition announcement were from principals of other firms, who all said exactly the same thing to me: "So you actually did it!" This was usually followed by: "How did you do it?" If you are considering a transition of your own, consider this planning outline to start the process. Good luck!

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