

Ownership Transition Guidelines

Excerpted and adapted from *The Architect's Handbook of Professional Practice, 13th edition*

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SUMMARY

Ownership transition can be a very stressful period for all involved. The best way to handle a change in ownership is with preparation, open and honest communication, and by following a predetermined process.

PREPARING FOR CHANGE

Ownership transition involves many legal, financial, and business issues, but concerns of a less tangible, quantitative nature must also be considered. The following guidelines, while not comprehensive, may help firms better prepare for the transition process:

- Be clear and honest with staff about why owners are beginning an ownership transition process.
- Understand the firm's need for continuing success. Identify and develop prospective owners with this tenet in mind.
- Do not expect an immediate buy-out and lump sum payment. Your most likely buyers—current employees—usually cannot afford such payments. Most sales of businesses are predicated on a payment plan over a period of years. A purchase plan with low after-tax payments can be both appealing and affordable to buyers, and result in a higher total value to sellers.
- Retain legal and financial counsel to help you draft the ownership transition plan, to ensure equitable terms, to provide objective advice, and to ensure that the legal, tax, and other financial aspects of the transition are properly handled.
- Develop an ownership plan that clearly documents the rules of the game, including the structure and participation of decision making. An ownership plan can greatly enhance the relationship of trust and confidence between existing and prospective owners, provided that the rules are not changed unilaterally.
- Recognize that those interested in buying the firm may not have the same approach to architectural practice and business management as those selling it. Accepting differences in the characteristics, strengths, and styles of the individuals in the next generation of leadership is important to a successful transition and the future evolution of the firm.
- Work diligently to clarify the expectations of buyers and sellers so that discussions and negotiations can lead to commitment to a common set of objectives.
- Determine the value of the firm in a way that seems fair and equitable to all parties. Buyers and sellers may see value in different terms. There is no simple, standard formula. Both buyers and sellers should strive to understand the factors related to valuation to feel comfortable with the valuation. A qualified, truly objective third party can be helpful in the negotiation process.
- Address issues of ownership and leadership separately.
- Agree on whether the divesting principals will remain with the firm, and if so, for how long and in what capacity.
- Agree on how to properly attribute projects completed prior to the sale, particularly if the name of the firm is to change.
- Consider each prospective owner independently, and then consider all prospective owners collectively as well.
- Acknowledge that even in the most carefully planned ownership transition, problems may arise that were not anticipated, certain decisions may prove unworkable, or certain new owners may be unsuitably matched. Establish equitable “divorce” procedures in advance that will have a minimal negative impact on other owners, staff, and clients. Develop a buy/sell agreement that defines a process for founders to repurchase ownership if the transition is unsuccessful. The

agreement should also include a valuation formula and a repayment schedule.

RESOURCES

More Best Practices

The following AIA Best Practices provide additional information related to this topic:

- 04.07.01 Essential Elements of Ownership Transition
- 04.07.04 Ownership Transition: Key Points to Ponder
- 04.07.08 Twenty Ownership Transition Planning Mistakes

For More Information on This Topic

See “Ownership Transition,” by Hugh Hochberg, Assoc. AIA, *The Architect’s Handbook of Professional Practice*, 13th edition, Chapter 6, page 132.



See also the 14th edition of the *Handbook*, which can be ordered from the AIA Bookstore by calling 800-242-3837 (option 4) or by email at bookstore@aia.org.



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Keywords

- Practice
- Business management
- Business structure