Source:Harvard Business Review's "Morning Advantage"

Harvard Business Review

THE GLOBE AND MAIL

Smart succession plan attracts fresh talent to B+H architecture firm

JACOLINE LOEWEN, CROSBIE

Published Tuesday, Mar. 05, 2013 05:00AM EST
Last updated Tuesday, Mar. 05, 2013 08:35AM EST

How did B+H Architects grow from a small firm of two employees to one of the largest of its kind in the world? One reason is that the two original founders had the foresight and the discipline to implement and follow an effective succession plan that they put in place in 1980, when they were nearing retirement.

It addressed the fundamental challenge many privately held professional firms face: How do you ensure a company's success beyond the original partners?

B+H's succession plan contained the key steps that are still used by the company's current principals. The logic was to ensure that those principals would bring new talent into the partnership and to encourage the commitment of new principals. Additionally, the succession plan was designed to ensure the funds were available as senior partners retire, to provide a liquidity mechanism.

"In architecture and design, there is a massive amount of M&A (mergers and acquisitions) activity that is taking place, with larger groups looking to consolidate, gobbling up smaller companies left, right and centre," says Bill Nankivell, CEO of B+H Architects, the largest privately held architect firm in Canada. "For the next generation of leadership of B+H, we aim to be a leader who acquires, not to be acquired."

At a certain age, you start to think of retiring once you reach 60 to 65. At B+H, retirement age – a sacred cow of many professional firms – is established for principals at the time they buy into the firm. As such, new principals know the exact age they will be required to start giving up units of ownership. They can continue to be active – and many are – but they no longer have any ownership. The principals at B+H realized that the only way to get their capital out is if there are others who are putting capital in. The transparent relinquishing of shares forces the passing of the "ownership torch," which ensures that there are opportunities for younger people to come in as partners and acquire ownership. Senior partners know they must grow their successors. The company's transparent succession plan has been a powerful recruitment tool.

Renewal of First Canadian Place in Toronto by B+H Architects

"The biggest challenge in succession planning is the commitment to growth," Mr. Nankivell says.

Four years ago, the decision was made to add financial partners with deep expertise in M&A and private equity. These partners brought best practices and other skill sets that supported B+H's expansion into Western Canada and to Asia. B+H also grew into new service areas such as urban planning, landscape architecture and interior office design. The company's ability to drive transformative growth allowed room for new partners in new sectors and new geographies. B+H had 10 principals. Today it has 32. This expansion also allowed B+H to retain its core of bright planners and designers.

"In the ups and downs of the marketplace, growth stagnation is being experienced in every industry," Mr. Nankivell says. "If revenues per principal stay flat, there is no room to bring new people into a partnership. This will limit the older principals' ability to monetize their ownership interests as they near retirement.

"For succession to work, you have to have good people who are competent to lead. But if the business does not thrive and it is not sustainable, no one is going to be interested in buying into the partnership. Our founders had the insight and vision to put into place a detailed and clear succession plan. This has worked for many years, and as a result, we have a viable, sustainable, and growing platform that people aspire to join. They know exactly how to contribute and become a principal."