THE ZWEIG LETTER

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HR | FINANCE SUPPLEMENTS

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August 4, 2014, Issue 1066

Keep your business profitable

Mark Zweig offers five suggestions on how to stay out of trouble and in the black.

When the growth slows, or when a large investment goes sour, profitability can evaporate quickly. Unfortunately, we in the A/E business have a bad tendency to not react quickly enough.

Mark Zweig

EDITORIAL

One of the greatest challenges is keeping your business profitable. It's easiest when you're growing. Revenue is going up faster than expenses. Under that scenario, cash may be strained but profitability is very likely.

When the growth slows, or when a large investment goes sour, profitability can evaporate quickly. Unfortunately, we in the A/E business have a bad tendency to not react quickly enough. If we're lucky, we've got a business with a strong enough balance sheet to weather the storm. If not, we're screwed.

So how do we stay out of this trouble and stay profitable instead? Here are my thoughts:

1) **Watch for danger signs.** The predictive metrics are where you need to focus your attention. The majority of firms still don't use these! Incoming web hits. New opportunities learned about. Proposals made. Sales. Backlog. Cash flow forecasting (not cash flow statement). These are the things that show you what's going to happen versus what happened. And for those firms that insist on tracking cumulative data (such as total proposals made) and tracking it graphically versus monthly data – STOP doing this! You are misrepresenting how well you're doing.

2) **Act on the information you receive.**

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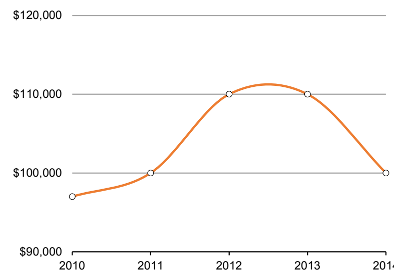
MORE COLUMNS

TRENDLINES

Ups and downs



At a five-year low of $97,000 in 2010, business development representatives' total compensation has been on the rise in recent years.

In 2011, business development representatives' total compensation increased to $100,000, and then to $110,000 in 2012, where it remained in 2013.

This year, however, ZweigWhite's 2014 Marketing Survey finds that business development representatives' total compensation dropped back to $100,000, a decrease of $10,000.

– *Margot Suydam, Director, Research*

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A/E BUSINESS NEWS

ABI SURGES The Architecture Billings Index is signaling improving conditions for the overall design and construction industry. The American Institute of Architects reported the June ABI score was 53.5, up from a mark of 52.6 in May. This score reflects an increase in design activity (any score above 50 indicates an increase in billings). The new projects inquiry index was 66.4, up noticeably from the reading of 63.2 the previous month and its highest level in a calendar year.

As a leading economic indicator of construction activity, the ABI reflects the approximate nine- to 12-month lead time between architecture billings and construction spending.

The AIA has added a new indicator measuring the trends in new design contracts at architecture firms that can provide a strong signal of the direction of future architecture billings. The score for design contracts in June was 55.7 – the highest mark since that indicator started being measured in October 2010.

"The recent surge in both design contracts and general inquiries for new projects by prospective clients is indicative of a sustainable strengthening across the construction marketplace," said Kermit Baker, AIA chief economist. "With the first positive reading since last summer in billings at institutional firms, it appears that design activity for all major segments of the building industry is growing. The challenge now for architecture firms seems to be finding the right balance for staffing needs to meet increasing demand."

Key June ABI highlights:

- Regional averages: Midwest (56.3), South (53.9), Northeast (51.1), West (48.7)
- Sector index breakdown: multifamily residential (57.7), mixed practice (53.8), commercial/industrial (53.1), institutional (50.2)
- Project inquiries index: 66.4
- Design contracts index: 55.7

VISION FOR COASTAL DEVELOPMENT A national vision for coastal risk management that includes a long-term view, regional solutions, and recognition of the full array of economic, social, environmental, and safety benefits that come from risk management is needed to reduce the impacts of natural disasters along the Atlantic and Gulf coasts of the United States, says a new report from the National Research Council.

To support this vision, a national coastal risk assessment is needed to identify coastal areas that face the greatest threats and are high priorities for risk-reduction efforts.

The report defines coastal risk as the potential for hazards, such as storm-surge-induced flooding and wave damage, to adversely affect human health and wellbeing, economic conditions, infrastructure, support services, and social, environmental, and cultural resources in coastal communities. In recent years, an increase in the population and property located in hazardous areas has contributed to a dramatic rise in coastal-storm-related losses. Climate change poses additional threats to coastal communities from sea-level rise and possible increases in the strength of the most intense hurricanes.

"There is a misalignment of risk, reward, resources, and responsibility related to coastal risk management, which has led to inefficiencies and inappropriate incentives that ultimately increase coastal risk," said Richard Luettich Jr., professor of marine sciences at the University of North Carolina, Chapel Hill, and chair of the committee that wrote the report.

"There is a crucial need for collaboration among federal agencies and between the federal government and the states, as well as policy changes that will help us evolve from a nation that is primarily reactive to coastal disasters into one that invests wisely in risk reduction and resilience," he said.

Responsibilities for coastal risk reduction are spread over a number of federal, state, and local agencies, with no central leadership or unified vision. The financial burden associated with coastal storms falls largely on the federal government, and the vast majority of funding is provided only after a disaster occurs.

Funding is limited for mitigation, preparedness, and planning, and little attention has been directed at prioritizing efforts at national or regional scales to better prepare for future disasters. In addition, builders and developers bear almost none of the risk, and local and state governments, which rely upon the tax revenues of coastal development, have few incentives to limit initial development or post-disaster rebuilding in hazardous areas, the report says.

MARK ZWEIG, from page 1

We all want to believe we don't have a problem. It's human nature. On top of it, the managers who report to you are people you want to support and it's easy to let them do what they want. But if you want to stay profitable you have to act quickly. It takes a long time to make up losses – a very long time.

3) **You take the hit yourself.** If cuts have to made, look at the top, first. Owners must be the ones to take them. Of course, dead wood and unnecessary luxuries should always be cut out first.

4) **Cut harder than you think you need to.** It's rarely enough. Unless you can cut deep enough that a profit is assured, you will possibly be facing a downward spiral of cost cutting – always too little and too late. Make is so you know, for certain, that a profit is assured.

5) **Build up a reserve.** Saving for a rainy day applies to your business as well as your personal financial management. Don't live in your line of credit. There's no safety net then. And you will need a safety net some day; not to mention that your bank doesn't want that line of credit to be permanent financing. Their response will be that you need more equity.

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THE ZWEIG LETTER

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INFLUENCE

Leadership doesn't equal dictatorship

Building trust and moving people out of their comfort zones so they can excel more in line with position.

By LIISA SULLIVAN
Correspondent

Leadership is one's ability to influence; influence is built through trust; and trust is built through communication. As a leader, one must operate knowing that every person in the world deserves to be heard with dignity. So, how do leaders avoid sounding like dictators? How do they put themselves into more of a consulting role and let people do what they are good at doing? Two A/E leaders share what's working for them.

Grant Mitchell, Principal, Director of Project Management, Process Plus.

"It's essential to build trust through communication, to motivate, inspire and galvanize people to collaborate in a way to achieve excellence in everything they do."

Lisa Brothers, President and CEO, Nitsch Engineering.

BUILD TRUST. "Many times, as leaders, it feels like everyone is voicing their opinions. They visit our office to express opinions, send emails, and call and send notes with strong opinions," says Grant Mitchell, principal, director of project management at **Process Plus** (Cincinnati, OH), a 112-person architecture and engineering firm. "But in reality, the majority of people don't say anything because they feel they can't or because they have not been asked. The key is open, honest and candid communication. Candid and regular communication must be rewarded, praised, talked about and demonstrated."

In the end, it's all about aligning people through communication and getting them to initiate action that is based on a shared vision.

"It's essential to build trust through communication, to motivate, inspire and galvanize people to collaborate in a way to achieve excellence in everything they do," Mitchell says. "The willingness of employees to meet my requests is based on the trust that I have established with each team member to achieve excellence."

With respect to being a better leader, Mitchell says that trust is built by being transparent, candid and accountable.

"Great leaders are great executors. While competence and vision are important, goal execution know-how is the key to being a better leader," he says.

GENTLY MOVE PEOPLE OUT OF THEIR COMFORT ZONES. Lisa Brothers, president and CEO, **Nitsch Engineering** (Boston, MA), a consulting engineering and land surveying firm, believes that without new challenges leaders – as both individuals and as a company – become stagnant and unengaged, so an important role a leader has to play is pushing people out of their comfort zone so that they can continue to grow.

"To help our staff along this path, I look for opportunities for people to accomplish something, either for their own personal development or to help the company develop – and approach each opportunity in a straightforward manner," Brothers says. "I talk with the employee, explain why I feel the opportunity is important, ask for their input, and then ask if they would be willing to take the lead on getting things done."

A LITTLE LEADERSHIP ADVICE

Grant Mitchell and Lisa Brothers provide the following leadership tips:

Adjust to circumstances. The most effective leaders use a collection of styles based on the circumstances around them. The key is to recognize the circumstances and then choose to execute a particular style of leadership based on those circumstances. This is not a function of personality, but a strategic choice. Mitchell suggest that leaders work to improve how they manage themselves and their relationships which consists of four capabilities:

1. self-awareness
2. self-management
3. social awareness
4. social skill

"These skills can be learned, but require commitment and practice," Mitchell says.

Lead by example. Brothers says that leaders can't expect others to follow their lead and take on new challenges and activities if they aren't committed to doing this themselves. Leaders have to set an example.

"Being aware of your personal strengths and weaknesses and how they impact those around you is also critical," she says. "You have to be mindful that as a leader everything you do and say, and how you act, is constantly being monitored and can have a huge impact on how people respond to you."

See LEADERSHIP, page 8

NEWS

Construction sector grows

June gains obtained across the board, following mixed performance earlier this year.

New construction starts in June advanced 6 percent to a seasonally adjusted annual rate of $549.7 billion, the highest level so far in 2014, according to McGraw Hill Construction. Nonresidential building strengthened after pulling back in May, with the lift coming from the start of several large manufacturing plant projects. Modest gains in June were also reported for housing and nonbuilding construction (public works and electric utilities). During the first six months of 2014, total construction starts on an unadjusted basis were $254.1 billion, up 1 percent from the same period a year ago.

June's data raised the Dodge Index to 116 (2000=100), up from 109 in May. During the first two months of 2014 the Index had averaged a sluggish 104, but then the pace of construction starts began to pick up, as the Index averaged 112 over the next four months.

"The first half of 2014 revealed a mixed performance by project type," said Robert Murray, chief economist for McGraw Hill Construction. "Single family housing stands out as the biggest surprise on the negative side, as its upward trend present for much of 2012 and 2013 has stalled for now. Public works and electric utilities are seeing generally decreased activity, as expected. On the positive side, multifamily housing is still proceeding at a healthy clip, and commercial building continues to move hesitantly upward, with office construction this year providing most of the support.

"Manufacturing-related construction surged in the first half of 2014, boosted by the start of several massive chemical plants and refineries, while the institutional building sector is still trying to make the transition from lengthy decline to modest growth. The year-to-date increase for total construction starts, at a slight 1 percent, reflects the lackluster activity present in January and February. More recent statistics suggest that the expansion for total construction is getting back on track in a moderate, if selective, manner."

- **Nonresidential building** in June climbed 12 percent to $214.9 billion (annual rate), after slipping 4 percent in May. The increase came as the result of an exceptional volume of manufacturing projects in June. If the volatile manufacturing category is excluded, nonresidential building in June would be down 11 percent after a 22 percent gain in May. The commercial building sector in particular retreated in the latest month, sliding 27 percent after soaring 33 percent in May. Office construction dropped 49 percent in June following a robust May. Hotel construction also pulled back in June, dropping 25 percent after a strong May. Stores and warehouses, which were sluggish during much of the first half of 2014, advanced 5 percent and 15 percent, respectively, in June.
- **Residential building**, at $214.3 billion (annual rate), grew 3 percent in June. Multifamily housing rebounded 22 percent, as it continues to show an up-and-down pattern around what is still a rising trend. Single family housing in June slipped 2 percent from May, continuing the essentially flat pattern that emerged toward the end of 2013 and has carried over into 2014.
- **Nonbuilding construction** in June increased 2 percent to $120.5 billion (annual rate). New electric utility starts were up 26 percent for the month, strengthening from a weak May, although still in line with the downward trend for this project type that's been underway over the past year. The public works sector overall weakened 1 percent in June, due to declines for two categories. Bridge construction fell 12 percent relative to May which had been lifted by substantial bridge projects in New York and Kentucky, while miscellaneous public works plunged 28 percent. In contrast, new highway construction starts in June improved 6 percent, while the environmental public works categories showed these gains – river/harbor development, up 14 percent; sewers, up 15 percent; and water supply systems, up 23 percent.

CALENDAR

HOT FIRM AND A/E INDUSTRY AWARDS CONFERENCE The 2014 ZweigWhite Hot Firm List is out, identifying the 100 fasted growing firms in the A/E/P and environmental consulting industry.

The Hot Firm List represents a look at the firms in the architecture, engineering, planning and environmental industries that posted the highest percentage revenue growth and dollar revenue growth over a three-year period compared to the other entrants.

"Getting on The ZweigWhite Hot Firm list is a tremendous achievement," says Mark Zweig, firm founder and CEO. "That's especially true now the economy is doing better. The goal post is getting higher!"

Likewise, the Best Firms Work For in the A/E/P and environmental consulting industries have been identified.

Since the Best Firms To Work For Ranking began in 2001, hundreds of outstanding architecture, engineering, and environmental consulting firms have been recognized for their ability to inspire their teams to perform at the highest levels. These firms create an environment where their people feel valued, can make a difference, and can clearly see their contribution to the overall mission and success of the firm.

Awards were given in the categories of architecture, civil engineering, environmental, multidiscipline, and structural engineering.

Winners of both awards will be celebrated during the all new Hot Firm and A/E Industry Awards Conference, held at the Beverly Hilton in Beverly Hills, Calif., on Sep. 25-26.

Come network, gain knowledge, and celebrate with the top firms in the industry. The 2014 ZweigWhite Hot Firm and A/E Industry Awards Conference is the industry's largest and most comprehensive business conference for leaders and aspiring leaders of A/E firms in the U.S.

This year's line-up of speakers will inspire you with new ways to create growth and excitement at your firm.

Successful leaders, newcomers, marketers, HR managers, and their families, from the fastest growing firms in the architecture, engineering, and environmental consulting industry are expected to attend.

For more information or to register for this exciting industry event, call 800-466-6275 or log on to www.zweigwhite.com/conference.

TZL time machine

10 years ago

HEADLINES **Editorial: Better office environments | Focus on Recruitment & Retention: MKA: Creating a highly skilled workforce with in-house training; Integrating a new employee | Selling marketing internally | Expanding horizons of IT leadership | Project Management Perspectives: Have computer, will travel | Taking a careful approach to design-build.**

We often hear marketing folks quip about how marketing is still an orphan child inside A/E/P and environmental consulting firms. Worse, many technical professionals don't understand why they have to build relationships or sell at all. It's a problem now and it was in 2004.

An article in the August 2, 2004, issue of THE ZWEIG LETTER (#572), offers advice on how to cajole technical professional to embrace marketing and selling. One firm leader suggested a three-pronged approach:

- Get rid of the misconception that if they do good work, the phone will ring with new work.
- Help them understand that projects are awarded to real people who have a relationship with the client and who are also really going to do the work.
- Give the engineers the skills training they need to get outside their comfort zone and be able to effectively develop relationships with clients.

Another firm leader said that selling and marketing was a job requirement for all new technical hires. Yet others defended a firm-wide marketing and business development strategy.

Mark Zweig, meanwhile, defended the creation of better office environments. "Think about it— you and your workers spend an average of 48 waking hours each week in the workspace," he wrote.

TRENDLINES

34 Percentage of principals subject to performance appraisals.

84 Percentage of those who think performance appraisals are useful.

42 Percentage of those who think they don't receive useful feedback.

Source: 2004 Principals, Partners & Owners Survey, ZweigWhite.

20 years ago

HEADLINES **Editorial: Pearls of wisdom | Who reviews principals? | Salary adjustments in employee transfers.**

The question raised by the headline "Who reviews principals?" is a good one. Do you know the answer? Who's reviewing the performance of higher ups at your firm?

The article in the August 1, 1994, issue of THE ZWEIG LETTER (#70) tries to answer this question. The article concludes that while most consulting engineering, architecture and environmental consulting firms have a method for regularly evaluating the performance of professional and administrative staff, many do not have a system in place to evaluate principals.

Some folks interviewed in the article said that a lack of performance reviews for principals can only lead to problems, as issues often only surface when it's already too late.

Some firms, however, said they had management-level performance review programs in place, such as **USKH**, a consulting engineering firm in Anchorage, Alaska, and now part of **Stantec**.

"When you start reviewing the big guys, it's hard to do one-on-one," Leo von Scheben, then CEO, told THE ZWEIG LETTER. "Sometimes it can be intimidating for the guy getting reviewed."

Others argued that principals shouldn't be reviewed because they have already demonstrated the ability to think for themselves.

In his editorial, Mark Zweig shared some "pearls of wisdom" on the topic of behavior inside the company:

- Never say anything bad about the competition.
- Never say anything bad about the competition.
- The technical people who produce the work are every bit as important as those who sell or manage it.
- You can't share the firm's financial information with the staff because: A) They won't understand it, B) It could end up in the hands of the competition, or C) It'll make them so scared that they'll jump ship.
- Debt is bad. You're always better off paying cash for something instead of leasing it.
- We don't have enough work so we have to get more proactive with our marketing.


the Zweig letter
THE VOICE OF REASON FOR ARCHITECTURE, ENGINEERING & ENVIRONMENTAL CONSULTING FIRMS

Better office environments

Training

Firm Index

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Next week:

The Zweig Letter

Professional liability insurance: How much?

A serious discussion of your risks with a trusted advisor should help you determine the right amount.

Dan Knise

GUEST SPEAKER

A question people often ask us as insurance advisors is: “What is the right limit of professional liability insurance – or any liability insurance, for that matter?”

Unfortunately, there is no scientific formula to answer this question. It turns out it is more art than science. On one hand, some will say that you don’t want the insurance limits to be as large as to make their firm a target; and on the other, you don’t want to go so low that you exhaust policy limits by even a modest claim, putting the viability of your firm at risk.

How little is too little? How much is too much? The epoxy anchor-bolt system designed for the “Big Dig” resulted in a $21 million settlement. Allegations of construction defects in a homeowners association in Palm Desert, Calif., led to a settlement of almost $13 million. And these were just the settlement amounts; defense costs (which erode professional liability limits) can also mount to substantial sums.

Fortunately, most firms will never face a professional liability claim that hits eight figures, but six- or seven-figure settlements are not so uncommon. So, how do you find that happy medium? Here are some guidelines for picking a limit that allows you to sleep at night without breaking the bank.

THE DRIVERS OF WHAT LIMIT TO PURCHASE. Among the factors that affect what limit any given firm should buy are:

- **Average (and largest) project size.** Generally bigger projects give rise to larger claims.
- **Overall revenues and assets.** The larger the firm and the larger the firm’s net worth, the more you have at stake should a large claim arise. Thus, larger firms tend to buy higher limits.
- **Contractual requirements.** Often the amount of limit required by clients is a driver of what limits are purchased.
- **Type of work and type of project/client.** History has shown that certain work (e.g., geotech or structural) is more risky than other areas of practice. By the same token, certain types of projects (e.g., condos) or clients (schools) have also given rise to more claims.

RANGE OF LIMITS. Professional liability limits available in the commercial insurance marketplace range from $100,000 per claim to the tens of millions. Smaller firms tend to purchase lower limits because they’re involved in smaller projects and because higher limits may be out of their price range.

Small firms generally purchase limits of at least $500,000 per claim. The most typical limit is $1 million per claim. Many firms actually purchase an aggregate limit twice the per-claim limit – for example, $1 million per claim/$2 million aggregate.

As firms grow larger, they tend to buy higher limits because they tend to be involved in bigger projects, their contracts sometimes require higher limits, and they have more to lose. For example, many firms with billings in the $10 to $25 million range purchase $5 million or more of limits.

BENCHMARKS. One way to gauge the most appropriate limit for your firm is by looking at what your peers are buying. Look at the limits carried by other firms that do the same types of work and are roughly the same size as your firm.

See DAN KNISE, page 8

A serious discussion of your risks with a trusted advisor, such as an insurance broker that specializes in insuring your type of operation, should help you determine the right amount that will let you sleep at night without breaking the bank.

Becoming a go-to person

Each step you take toward becoming a go-to person is one more step toward differentiating you from any other consultant, project manager or designer.

We all know them. They're the people in demand. The ones on the playground who may not have got picked first, but today are indispensable to your success. Go-to people enjoy job security, choice projects, higher pay and a tremendous satisfaction that comes with professional recognition. Imagine business development where you choose which calls to take, rather than which calls to make.

Developing yourself as a go-to person is not unlike developing your own personal brand. How do you want people to see you? Do you want to differentiate yourself in a unique way? But for those people who want to develop their personal brand to align with their own deep-seated interest to go deeply into an area and master it, there's a process I use in my leadership workshops to help guide the process.

What is your vision and purpose? Before clearly defining your brand, look externally at the bigger picture of your vision for the world, and then internally at how you might help the world realize your vision. Three years from now, what will have happened for you to be satisfied with your progress?

What are your values you want to be known for? You have to know yourself and what you want and need before you can move forward. Your belief system and operating principles are at the core of determining whether an opportunity in front of you will be a good fit for you. List your top three core values. Now ask three friends and colleagues to list three adjectives that describe you. The true test of a brand is how others perceive it. How does your self-assessment jive with their feedback?

What are your core strengths and what are you passionate about? In what functions and responsibilities do you excel? For what things are you the designated "go-to" person already? What gap would your company face if you left suddenly? Are you naturally drawn into an area or skill? Go-to people can be internally focused – valuable for their contributions to operations – such as being a strong rainmaker, mentor to younger engineers or facilitator of design charrettes. They can also be externally focused – valuable to owners, clients and partners – in demand as an authority in passive cooling, the design of surgery rooms, or space planning for college dorms. The common element is that you have mastered an area so well that others widely recognize it.

Leo MacLeod

GUEST SPEAKER

Gather information and talk to people. It can be difficult to narrow your focus to one thing you are known for. For those who gravitate to "one thing," however, being recognized as an expert can be extremely fulfilling and particularly beneficial for business development. Talk to people who share your interest in a field, research associations, read articles and blogs and begin to dive into an area to see if it feels right. What does it take to really become a go-to person? Is it an expertise that translates into career advancement or winning key projects or is it just personally interesting? What's the end game? After you find out, are you still interested?

See LEO MACLEOD, page 8

What does it take to really become a go-to person? Is it an expertise that translates into career advancement or winning key projects or is it just personally interesting?

LEADERSHIP, from page 3

"You have to be mindful that as a leader everything you do and say, and how you act, is constantly being monitored and can have a huge impact on how people respond to you."

An honest conversation like this goes a long way to achieving "buy-in" and usually leads to the person taking ownership and responsibility of the project. Once someone has committed to taking on a new project, Brothers asks them for a realistic deadline and then provides them with the autonomy to accomplish what was discussed.

"If for some reason it isn't accomplished, I'll have another straightforward conversation about what now needs to happen to get things done," she says. "If things reach this stage, I will check-in more frequently to make sure they are making progress and to see if they need any additional assistance and/or support."

Brothers shares that often people don't like being pushed out of their comfort zones, but once they accomplish whatever it was that made them uncomfortable in the first place, they are usually elated.

"I believe that providing people with the right opportunities to grow, having straightforward conversations about expectations and disappointments, and being consistent, has helped me to gain respect from people," she says. "I've also learned through this that you have to do what you say you are going to do – this builds trust."

LEO MACLEOD, from page 7

MAKE THE COMMITMENT. Brands are powerful when they consistently deliver a unique experience. It takes time and discipline to become an expert. Just read Malcolm Gladwell's "Outliers" and the 10,000 Hour Rule for inspiration. But it's also not an overnight phenomenon. You won't advance, however, if you don't put the work in. Attending an association luncheon a few times a year won't get you there. Sit on the board, set policy, advance up the ranks. Carve out time for training and advanced education. Write blogs and white papers. Make presentations. Become visible. Take risks. Raise your hand. Start something new. To be a leader, act like a leader. What are two small steps you can take toward your goal in the next month?

The good news is that each step you take toward becoming a go-to person is one more step toward differentiating you from any other consultant, project manager or designer. You don't need to arrive at a particular destination to reap the rewards of your hard work.

LEO MACLEOD is a leadership and communication coach. He can be reached at leo@leomacleod.com.

DAN KNISE, from page 6

To determine what limits your peer group buys, you need to talk to an expert broker or insurance company that has access to that type of information. One excellent source is an insurer that provides coverage to large numbers of architects or engineers. For example, CNA/Schinnerer keeps track of what limits different size firms buy and can provide those benchmarks.

Trade associations may also keep track of limits purchased by members. For example, the American Council of Engineering Companies publishes a matrix of limits by revenue brackets. The downside of such information is that it is usually self-reported by members and may not be as reliable.

MEETING HIGHER CLIENT REQUIREMENTS. From time to time, firms face the dilemma of a specific client (or project) requiring higher limits of professional liability insurance than they carry as part of their practice policy. The good news is that there is a way to deal with such requests.

Most professional liability insurers will offer their clients the opportunity to purchase a "SALE" (a specific additional limits endorsement) or an "SPX" (a specific-project excess endorsement) that applies to the specific project. This places project-specific limits under (in the case of the SALE) or over (in the case of the SPX) your practice policy. These two limits are added together to meet the project limits requirement. (A variation on this theme is the "CALE" – a client additional limits endorsement – that applies only to projects for a particular client.)

Alternatively, if a firm is getting such "higher limit" requests too frequently it likely makes sense to simply increase the overall practice policy limit. Finally, there may be circumstances where it is appropriate to place a full-blown project-specific professional liability insurance policy or a so-called owner's protective professional liability insurance (OPPI) policy. Such alternatives are often more expensive, but provide broad coverage and dedicated limits for the entire design team.

FINAL ANALYSIS. Unfortunately, no one can tell you with certainty how high is high enough. As mentioned, picking a limit is as much art as science. What do your peer firms buy? How often do you get sued? Where in the country – or the world – do you work? What do your contracts require?

There is no magic formula because there is no limit that will be high enough in all cases, but a serious discussion of your risks with a trusted advisor, such as an insurance broker that specializes in insuring your type of operation, should help you determine the right amount that will let you sleep at night without breaking the bank.

DAN KNISE is the president & CEO at Ames & Gough. Contact him at dknise@amesgough.com.

RETENTION

Perks that are balanced and fair

While they can be fun, perks are a poor substitute for a culture built on a stronger, more inclusive foundation.

By LIISA SULLIVAN
Correspondent

How are A/E firms dishing out perks? Do some people get more than others? Does tenure play a role? And if so, how do firms ensure that no one gets their nose out of joint if some receive perks while others do not?

Perks and performance. **MS Consultants, Inc**. (Columbus, OH), a 331-person engineering, architecture and planning firm, works hard to reward its teams based on performance. Position and tenure are not factors when it comes to traditional benefits like vacation time and healthcare coverage.

"This non-hierarchical approach builds team chemistry and harmony. In turn, this builds real respect within our employee groups," says Ed Randall, vice president, staffing and administration.

Randall says that its perks are limited to:

- **Flex schedules.** All employees who are in good standing are eligible for flexible schedules. "Occasionally, we will ask some employee groups to work a set schedule when specific schedules are needed to fulfill the core duties of the job," he says.
- **ESOP.** Every employee who works a minimum of 1,000 hours in a calendar year and is employed on Dec. 31, qualifies for an annual stock allocation under the employee stock ownership plan. Exempt versus non-exempt/title/tenure are not factors.

No kids? People should still get perks. Many businesses tend to focus on giving special perks to people who have kids. They work around their schedules, and are empathetic to their needs. But what happens if some employees don't have kids? Are they missing out?

One of the benefits that companies often provide employees with kids is the ability to take off work when a child is sick from school. According to an article in PayScale Career News, to childless employees, this may appear as an unfair benefit if only given to parents who work for the company.

According to the article, one of the myths is that single or child-free co-workers have less responsibility, less to do or less stress, and therefore more time to spend in the office. That's simply not true.

Ed Randall, VP, Staffing and Administration, MS Consultants, Inc.

GOOD TO KNOW

Practically all firms (86 percent) have a 401(k) plan. Two-thirds of firms (66 percent) require employees to work with the firm for a certain number of months before they are eligible to participate in the 401(k) plan.

Source: 2014 Policies, Procedures & Benefits Survey, ZweigWhite: www.zweigwhite.com/p-2191-policies-procedures-benefits-survey-2014.

These people should get equal flexibility consideration. If they are not, they should bring it up to their supervisor or management to see what can be done. Employees without kids need to make it clear that they have obligations too, especially if they are the ones getting stuck at the job picking up the slack. This could easily lead to feelings of resentment.

Managers need to understand that perks are great and do release some burdens from employees' shoulders, but they are not a substitute for prime sources of professional inspiration.

Don't let perks cause a great divide. Model View Technology, a blog that focuses on technology, culture and diversity media, has something to say about perks too. It shares that a company or team that aspires to build a diverse, engaged workforce says that managers need to be mindful of the fact that for many people perks underscore the differences between members of the team, rather than bringing them together. They also need to think about what a company's perks indicate to potential employees about the culture.

Perks for all. Monster.com advises that while perks can certainly be motivators, for the most part the most powerful motivators are on-the-job challenges and the feeling of being a valuable part of a quality team that will recognize their contribution. Managers need to understand that perks are great and do release some burdens from employees' shoulders, but they are not a substitute for prime sources of professional inspiration.

And, no matter what your position, Monster.com says that there are several essential job perks that make lives better for employees. They include:

- **Training.** Forget the company car and expense accounts, perks that help employees advance in their career or personal happiness can truly impact future career success. This is a perk that delivers long-term gain for all parties involved.

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ON THE MOVE

PARSONS HIRES Parsons (Pasadena, CA), an engineering, construction, technical, and professional services firm, announced that **Rhet Schmidt** has joined the company as vice president and district manager for Florida in its Road & Highway division.

Based in Orlando, he will oversee the Jacksonville, Miami, Orlando, Tallahassee, and Tampa offices.

Schmidt brings to Parsons 21 years of experience in highway design and construction engineering, including project management work on a variety of high-profile projects for the Florida Department of Transportation.

"We are excited to welcome Rhet to our team," said Todd Wager, Parsons Group president. "His extensive background with the Florida Department of Transportation and in managing complex projects will help Parsons continue to deliver high quality projects throughout this growing state."

SYKA HENNESSY PROMOTES Syska Hennessy Group, Inc. (New York, NY), a global consulting, engineering and commissioning firm, announced that **Angelo Vecchio**, a 16-year veteran with the firm, will relocate to the company's Charlotte, N.C. office where he will serve as the local Information and Communication Technology practice area leader focusing on the firm's technology services which includes IT/telecommunication, audiovisual and security disciplines.

Vecchio, who has been involved with more than 100 projects throughout his career at Syska Hennessy Group while based in their New York City office, will spearhead the expansion of the firm's technology sector presence in the Carolinas and help support activities in the Southeast.

Vecchio has an in-depth understanding of the opportunities and technology challenges companies face in today's market, making him an ideal candidate for this position. His responsibilities will include project execution and business development activities related to these services in the region.

The Syska Hennessy Charlotte office, which opened in 2003 and currently retains a staff of 26 employees, has built a stellar reputation over the last decade, having successfully worked on projects with a number of high-profile confidential financial and telecom service provider clients in the Carolinas. The company also moved into a new facility over the last year as it continues to branch out into new sectors and practice areas.

"I look forward to my new role with the Syska Hennessy Charlotte office," Vecchio said. "Many companies throughout the southeast are looking to grow and we have the engineering expertise to assist with their technology planning."

HMM HIRES Leslie Samel has joined 2,700-person multidisciplinary engineering firm **Hatch Mott MacDonald** (Iselin, NJ) and will serve as a senior project manager and office leader at HMM's office in Jacksonville, Fla.

Samel is a professional engineer in Florida, Georgia, and North Carolina, with over 14 years of experience in environmental, water, and wastewater planning, design, and construction services.

Prior to joining HMM, Samel served as client service leader and senior project manager for a large engineering firm on water and wastewater projects in northern Florida and southern Georgia. Samel will lead HMM's efforts to grow the Jacksonville office, helping HMM expand its presence in environmental, water, wastewater, and heavy civil projects.

CARNEY HIRES Carney Engineering Group (York, PA), a multi-discipline structural engineering firm serving the Mid-Atlantic region, announced the addition of **Ishmael Keener**, of Lancaster, Pa., as the newest structural designer on their growing team.

Keener will assist Carney Engineering's existing team of engineers with structural drawings, BIM modeling and structural calculations for various project and new and existing clients.

"We are excited to have Ishmael on our team of structural engineers," said Josh Carney, president of Carney Engineering Group. "He is passionate about the industry and it reflects in his personality and work ethic. He's a natural fit for our team and a great asset to our company."

Prior to joining Carney Engineering Group, Keener worked at Pro-Perma Engineered Coatings in Rolla, Mo. as a research engineer. While there, he contracted and performed concrete testing, conducted data analyses and served as a technical expert for concrete reinforcement technology.

PENNONI PROMOTES Pennoni Associates (Philadelphia, PA), an engineering, design, and consulting firm, announced the promotion of nine associate vice presidents and two vice presidents.

The following individuals have been promoted to associate vice president:

Jennifer Laning, bridge inspection practice leader based out of Baltimore.

John Skorupan, office director based out of Pittsburgh.

Todd Stager, office director based out of Mechanicsburg and State College, Pa.

Alan Lloyd, safety & industrial hygiene division manager based out of Haddon Heights, N.J.

Dan Barbato, municipal division manager based out of Newark, Del.

Todd Hay, office director based out of Edison, N.J.

Dave Steigler, office director based out of Chantilly, Va.

Fred Ameen, engineering division manager based out of Leesburg, Va.

Mark Thomas, land development division manager based out of Leesburg, Va.

The following individuals have been promoted to vice president:

Bruce Frederick, office director based out of Norfolk, Va.

Ted Januszka, regional transportation principal based out of Newark, Del.

PERKS, from page 9

- **Early –** and more – feedback. Holding bi-annual performance reviews as opposed to yearly reviews, gives employees motivation. It communicates the possibility that if they do well, they could get a boost in pay, more responsibility or even a promotion.
- **A better title.** This may seem like a little thing, but a better title can give an employee more credibility in their field. It will also boost their self-esteem.

So, while perks can be fun, they are a poor substitute for a culture built on a stronger, more inclusive foundation. Building a cohesive team with members who trust one another's work is an incredibly difficult job. Trying to create that cohesion around perks rather than a shared set of values about the work you're doing is a shortcut that rarely pays off in the end.

INCENTIVE

Plan to share the wealth

Profit sharing programs give employees a sense of ownership, but make sure everyone knows how such programs work.

By LIISA SULLIVAN
Correspondent

Do you have a profit-sharing plan in place? If so, what are the most effective ways to distribute profits to employees? Or perhaps you are unsure of whether to implement a profit or equity sharing plan? Here are some items to ponder.

Brian Bowers, president of **Bowers + Kubota** (Waipahu, HI), a 118-person employee-owned architectural/engineering firm, says that they employ several methods, in order of priority as follows:

- 401(k) match (once a year)
- ESOP contribution (once a year)
- Bonuses (twice a year)
- Profit sharing distribution (once a year)

Bowers recommends that if firms are considering a profit-sharing program, they should first do the following:

- Communicate the purpose of the profit-sharing plan (retention/reward) to employees and make sure they understand the link between their collective performance with the profit-sharing plan.
- Start it slow and make sure the plan is sustainable.

John Aberle, author of "How Relationship Selling Rewards Small Businesses," says that a profit sharing plan can be a strong motivator for more reasons than just money.

"Because it's tied to your small business actually making a profit, it gives the employees a feeling of ownership," he says. "If they can help improve sales and profits, they share in the rewards."

Aberle agrees with Bowers in that in order for a profit sharing plan to motivate performance, employees need to understand how it works. Additionally, they need to know how they stand and what they have to improve to get their fair share.

"One of the ways I've seen small businesses apply bonuses is to use part of the profit pool to reward those who are participating in the company's 401(k) as matching funds," he says. "They matched the employees' contributions up to six percent. If employees chose to not contribute at least three percent, they failed to get any of the profit sharing. This company also paid a Christmas or year-end bonus as well as mid-year bonus."

Steve Goldstein, partner, Grassi & Co., accountants and success consultants, advises that "Cash is king."

"Most A/E firms that I see are choosing to distribute profits at year end in order to get the tax benefit/deduction," he says. "There are also many firms that incorporate medical benefit plans into their profit sharing plans too."

Brian Bowers, President, Bowers + Kubota.

GOOD TO KNOW

Almost half of firms (49 percent) have a profit sharing plan. Firms set aside a median of 10 percent of total pre-tax profits for their firm-wide profit sharing pool.

Source: 2013 Incentive Compensation Survey, ZweigWhite: www.zweigwhite.com/p-2168-incentive-compensation-survey-2013.

TAKE FIVE

Owen-Dunn, a risk management organization, provides five tips to help you find the best profit distribution plan for your organization:

1. **Profit or equity sharing?** First, you need to determine exactly what form the value should take. Profit sharing is the process of taking profits and sharing them with employees. Equity sharing is more complicated. With an equity sharing program, you are giving ownership of the value to the employee. The primary benefit for the employee of profit sharing comes in the form of increased cash compensation. For the owner, the benefit comes in maintaining ownership (and control) of the company. The primary benefit to employees in an equity sharing arrangement is that their piece of ownership may increase over time. The primary benefit for owners in an equity sharing arrangement is that the potential for a large payoff down the line or a say in company management often attracts the highest quality employees to your organization. On the flip side, the organizational and tax implications of distributing ownership interest to employees can be enormous and complex.
2. **Set a schedule.** Before instituting any plan for employee profit sharing or equity distribution, make sure you have a clearly defined schedule of how these distributions will take place. Quarterly or annual profit sharing distribution checks can be fine, but you might be surprised by how unscheduled distribution plans result in employees coming to management and asking for "their share" at random times. Avoid that happening by setting a firm schedule for any distributions and then sticking to it. For equity sharing arrangements, make sure any vesting period (the time it takes to earn an additional percentage of ownership) is clearly laid out and includes performance benchmarks, as well.
3. **How long does it last?** One advantage of profit

See TAKE FIVE, page 12

TRANSACTIONS

JVIATION BUYS Jviation, Inc. (Denver, CO), an aviation-focused planning, engineering and construction management firm, announced that it has completed its acquisition of **Creamer & Noble, Inc.**, a St. George, Utah-based engineering firm that specializes in the aviation and municipal/transportation markets. The combination brings together two firms with similar customer service philosophies and industry-proven strategies and insight to help clients achieve their targeted goals.

"Jviation's acquisition of Creamer & Noble represents a natural fit, as both organizations share the same mission of providing high quality and personalized service to our clients," said JD Ingram, principal of Jviation, Inc. "Creamer & Noble's staff has a strong history of delivering exceptional engineering services to their clients and they have expertise that both compliments and expands Jviation's current service offerings."

The transaction will enhance the company's existing resources in Utah and accelerates the growth in the Utah-market and expands the company's services to include the municipal/transportation market sector.

"Our combined team is known for their substantial industry experience and have a deep understanding of the complex issues our clients face and can help them implement credible, workable solutions to these issues. Our clients will immediately see the benefit of our joined forces and our enhanced capabilities," said Reed Noble, president of Creamer & Noble.

FIRMS MERGE Toronto-based **Zeidler Partnership Architects**' Calgary office has merged with the Calgary-based firm **BKDI Architects**. The new partnership is **Zeidler BKDI Architects**.

The merger represents a combination of a shared culture and complementary practice strengths and is a natural transition from Zeidler and BKDI's 15-year history of joint collaboration as a registered collaborative firm working in Alberta. This merger formally recognizes the blend of talents, joint philosophy and experience of a multi-jurisdictional professional practice. At this time, they are working with Cadillac Fairview on the 1.75-million-square-foot, mixed-use Calgary City Centre development. The principles of designing attractive spaces for people that respond to rapid advances in industry-specific knowledge continue to guide their work. The merger enables the firm to provide a broader set of services to their clients.

The merger became effective on July 1. Zeidler BKDI Architects is a firm of 70 staff in Calgary, and will draw from the resources of Zeidler's offices in Toronto, Victoria, London, Berlin, Beijing, Chengdu, and Abu Dhabi.

Zeidler's senior partners Vaidila Banelis and Tarek El Khatib join Jean Guy Beliveau, Stephen Bugbee, Bill Mitchell and Catherine Richardson, partners at BKDI, to form the new partnership group. Michael Cojocar and Martin Veenhoven join Ross Roy of BKDI as principals and continue in their senior leadership roles.

The pursuit of quality is the foundation of this collaboration. Both firms are proud of their professional staff, quality of their projects, and the quality of their service. Both firms bring years of stability, a history of client satisfaction and are aligned on professional excellence principles: training and development, pro bono work and workforce diversity. The new firm will continue to focus on client values, and provide high-quality service from the existing team.

FIRMS ON THE MOVE

SCHAEFER EXPANDS IN COLUMBUS Having outgrown their Columbus location, **Schaefer**'s Columbus team of structural engineering experts upgraded to a new office at 937 West 3rd Ave. The open concept space in the high profile location near Grandview Yard and the new Giant Eagle Market District Store will comfortably house the firm's 12 Columbus employees with room for a production staff of 24.

Schaefer, a structural engineering firm, is based in Cincinnati.

The team overhauled the 3,900-square-foot space into an open, collaborative environment, reflective of the firm's values. Previously the Yeager Graphics building, but vacant for many years since, Schaefer enlisted the help of other local Columbus design and AEC firms to fulfill the vision for a modern, efficient and open office environment. Schaefer is the east bookend of the quad-divided warehouse space that it shares with the other forward-thinking and creative building neighbors: Birkram Hot Yoga Columbus, Reed Arts custom picture framing studio, Live Happier Loft life coach and Crystal Remembrance glass studio.

TAKE FIVE, from page 11

sharing plans is that when employees leaves the organization, they no longer receive any part of the profit share. If you have distributed equity, then that ownership stake belongs to that person, whether they work for you or not. For this reason, equity programs are most common at organizations that are publicly traded, where common stock (which non-employees are free to buy) is already available. If the company is pre-IPO (that is to say, the stock is not yet available), then most equity sharing arrangements include stock options for a later date that are essentially worthless if the employee leaves the organization before the options can be exercised. There are a variety of ways to distribute value to employees, but one option that should never be considered is granting equity or ownership in the organization without recourse if the employee leaves the organization.

4. **How much is enough?** Profit sharing plans can be tricky at smaller organizations because the amount able to be distributed is likely to vary widely from month to month or year to year. The purpose of profit sharing is to reward employees for building value in the company. At the same time, if you have 20 employees and only $200 of profit to distribute, wouldn't that money be better suited in the company account compared to giving everyone $10? Wouldn't such a small share indicate to employees that the company wasn't all that successful and perhaps create disharmony or frustration among your team? Only you can answer that question.

> "Most A/E firms that I see are choosing to distribute profits at year end in order to get the tax benefit/deduction. There are also many firms that incorporate medical benefit plans into their profit sharing plans too."

5. **Other options.** Many medium size or large organizations implement employee-purchase plans wherein employees may purchase common stock at a discounted rate on a regular basis. This allows the employee to choose ownership or a quick cash return (buying the shares at a discount and then selling them) without materially impacting the business. This type of program, however, is difficult to implement in smaller businesses, but should be kept in mind if your company is growing quickly and seems destined for public ownership.