THE ZWEIG LETTER

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HR | FINANCE SUPPLEMENTS

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Cars, cars, cars

The long love affair between design firm leaders and cars continues, Mark Zweig writes.

Today, things are a little different, with only 38 percent of firm principals getting company vehicles, down from 57 percent in 1998.

Mark Zweig

EDITORIAL

We were doing an in-house seminar a couple weeks ago for a really great planning and architecture firm on the East Coast.

One of the things we talked about was company cars. I made a statement that architects either hate cars and view them strictly as a means of conveyance, in which case they drive Toyota Prius or ancient, creaking Honda Civics, or they love cars and drive Bentleys and Porsche 911s. It was hysterical. In one small group of about 12 people, three immediately identified themselves as having a Prius and one had a Porsche 911 and a high-end Mercedes.

An interest in cars and motorcycles has always been one of those things that I had in common with many of our clients – principals and managers of architecture and engineering firms. Back in the good old days, we used to have CEO gatherings at various racing schools. We raced Formula cars and Vipers at Skip Barber Racing School at the Moroso Motorsports Park in Palm Beach. We did Richard Petty Driving Experience (80 laps on a banked tri-oval) at Las Vegas Motor Speedway. And we did the Spencer Riding School

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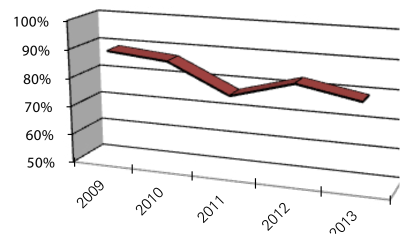
TRENDLINES

Declining worth



The percentage of principals who say that their investment in their firm is worth more than what they paid for it has decreased slightly, according to the 2013 "Principals, Partners, & Owners Survey."

This year, 79 percent of principals say that their investment in their firm is worth more, a drop from 83 percent in 2012. This number has been on a gradual decline over the past few years: At a five-year high of 89 percent in 2009, it decreased to 87 percent in 2010.

The biggest decline, however, was in 2011, with only 77 percent of principals reporting that their investment in their firm was worth more than they what paid for it.
– *Margot Suydam, Survey Manager*

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A/E BUSINESS NEWS

ABI IMPROVES: With increasing demand for design services, the Architecture Billings Index is continuing to strengthen. The American Institute of Architects reported the February ABI score was 54.9, up slightly from a mark of 54.2 in January. This score reflects a strong increase in demand for design services (any score above 50 indicates an increase in billings). The new projects inquiry index was 64.8, higher than the reading of 63.2 the previous month – and its highest mark since January 2007.

"Conditions have been strengthening in all regions and construction sectors for the last several months," said Kermit Baker, AIA chief economist. "Still, we also continue to hear a mix of business conditions in the marketplace as this hesitant recovery continues to unfold."

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

Key February ABI highlights:

- Regional averages: Northeast (56.7), Midwest (54.7), West (54.7), South (52.7)
- Sector index breakdown: multifamily residential (60.9), mixed practice (56.9), commercial/industrial (53.3), institutional (50.7)
- Project inquiries index: 64.8

DODGE MARKETSHARE LAUNCHED: McGraw-Hill Construction Dodge launched Dodge MarketShare, a new business intelligence tool that provides historical analyses and forecasts based on real construction industry projects, enabling construction executives to more accurately identify market opportunities and align their resources.

The features in Dodge MarketShare were developed to answer the strategic questions that construction industry executives need to gain competitive edge. The dashboards extract data from the projects to answer:

- How does my salesforce performance compare against the market?
- Which vertical market sectors are growing?
- Where should I prioritize my efforts, including projects' value class, story height, owner type, and other criteria?
- Are my sales forecasts and targets realistic based on market dynamics and my competitive position?

MARK ZWEIG, from page 1

at Las Vegas Motor Speedway. We had a fleet of BMW, Porsche, Mercedes, Rover, Saab, and Audi company cars, as well as a little red Dodge hot rod van our employees could use any time they needed to move. We also used to have a rotating display of vintage motorcycles in our lobby at the ZweigWhite office in Natick, Mass.

Today, things are a little different, with only 38 percent of firm principals getting company vehicles (according to ZweigWhite's upcoming 2013 Principals, Partners & Owners Survey), down from 57 percent in 1998. That said, 20 years ago the most common company car was a black or dark green Ford Explorer. My guess is that today it's a BMW 5 series or something similar. Earlier this week we were at an engineering firm in Miami. Their two primary owners had a 7 series BMW and big Range Rover as company vehicles. Fewer but nicer company cars seems to be the norm these days.

Fifteen or more years ago I was out in Portland visiting David Evans – founder of the 800-plus person **David Evans & Associates** (DEA). At that time he decided to dump their fleet of Honda Accords and Tauruses and replace them with cool old cars. He drove an Avanti. There were ancient T-birds on ramps in the company parking deck. While it was a cool idea that made a statement I don't think David would tell you it was a good idea. His people needed reliable transportation!

Those of you who subscribe to either of **THE ZWEIG LETTER**'s sister publications, **CE News** or **Structural Engineer**, may have seen the photo with my publisher's message, where I'm standing by my '35 Ford pickup. Many people write in to ask me about it.

It was a drivable but half-finished project when I bought it from a friend. It had a Buick V6 in it at the time – barely any interior and no heater. I dropped in a 383 stroker crate engine with well over 400 dyno-tested horsepower, along with a new B&M Turbo-hydramatic high stall speed torque converter. It already had a Ford 9-inch rear end and front disc brakes. We added a new "hot rod heater," satellite radio, new radiator and electric fan, new window glass all around, and a "King Ranch" distressed brown leather interior with black piping. It also had new ceramic coated headers hooked up to four functional 3-in. diameter exhaust pipes and electric exhaust cutouts going to dumps. We painted it in hotrod matte black, put some Dodge police car wheels on it, new tires, new shocks, and new wood bed stake sides. What a wild little "trucklet" we created for my design/construct/development firm, Mark Zweig, Inc.!

But like most good things, this one had to end. My fun with the '35 was over and the need to replace it with a "real" F-150 materialized, so I sold it. It ended up going to Tokyo, where I hear the new owner is terrorizing the local citizenry with his new fire-breathing, all-American hot rod toy.

So what are you doing about company vehicles these days? Are they "in" or "out?" If you have them, what are they? Drop me a line and let us know!

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BEST PRACTICES

Maximizing contractor relationships

When the building gets going, it's important to establish expectations and ground rules.

By LIISA SULLIVAN
Correspondent

All building projects, large and small, require management and administration. But, how those projects are managed can greatly vary and a lot hinges on the quality of the general contractor. So, what are some red flags and what can you do to keep a project running smoothly when a contractor does not measure up?

A case study. William Wight and KyAnn Anderson are both principal architects with **Kleinfelder** (San Diego, CA), an employee-owned architecture, engineering, and science consulting firm. They have worked together on one project – a mixed-use office, assembly and training space of approximately 200,000 square feet, but each dealt with a different contractor. One had a good experience; the other experience was not as positive. Despite the differences, they had to figure out how to make it work.

KyAnn Anderson, Principal Architect, Kleinfelder.

Qualities to look for. "When it comes to actually choosing the general contractor on a public-sector job, the design team really has very little say," Anderson says. "So, we have to work with what we have."

Both Anderson and Wight agree that the following are some of the most important things to find out before working with a builder to ensure that a project runs smoothly:

1) **Team player:** Is the builder willing to work directly with the design team? "The overall willingness to work with the team is integral to any project," Wight says.

2) **Problem solving:** Is the builder's ability to approach a problem based on being a team member (no finger pointing or defensive attitude)? Does he/she possess the ability to come together with a group and brainstorm?

3) **Effective use of technology:** Does the contractor use BIM (building information modeling)? Is he/she able to set up conference calls? Is there an FTP site set up so information can be easily shared? Is he/she familiar with AutoCAD for the purposes of sketches? Anderson found that the quality of coordination drawings were very different from those received by Wight. This was primarily due to the fact that Wight's contractor was using BIM technology for the drawings. "BIM technology allows the builder to be more proactive than reactive," she says. "It really decreased the level of conflict because the builder can anticipate problems much more ahead of time."

4) **Staff:** How long has the contractor's supervisor been with the company? Is there a LEED-accredited professional on staff? Is there a core staff in place? What about field staff? Is staff consistent? "The success of a job is highly dependent on the quality of the supervisor and his or her ability communicate, problem-solve and organize," Anderson says. "Additionally, multiple staff or leadership switchovers or replacements are very disruptive to a job's success."

5) **Sub control:** What type of relationship does the builder have with the subcontractors? "This is a critical part of the process to ensure success," Anderson says. "It's much easier when the general contractor is able to relay information from subs and is on top of what is happening at all times. It's very important for the contractor to be accountable for quality."

Dealing with challenges. Now, everyone knows... there is no such animal as a perfect job. However, there are things that can be done to avoid or minimize on-the-job problems to keep things running as smoothly as possible.

"For example, it's very important to document everything," Wight says. "This will be important down the line when you need to refer back to something."

Anderson agrees and says that contractors can sometimes relay information in a somewhat "fuzzy" manner. It's not always clear. She found detailed documentation to be very helpful to her on this project since she came into the project when it was approximately mid-way to completion.

"If a changing of the guard occurs, documentation is of utmost importance," she says.

Receiving non-scale sketches is also a problem, Anderson says. "It is critical that the design sketches that the general contractor creates be buildable, illustrating that he/she has a handle on sequencing and detailing."

So, what can be done if they are not to scale? Anderson says that an architect can help by making gentle suggestions and requesting revisions. It's good to provide a starting point, but not more than that. The contractor needs to be able to deliver designs that are to scale.

Warning signs. Wight says that you should be on your toes when one of these things occurs:

1) **Preconstruction meeting.** If the builder bid on and won the job and

See CONTRACTOR, page 4

GOOD TO KNOW

More than half of firms (51 percent) have a formal method or process to **solicit ongoing client feedback** regarding the firm's performance.

Source: 2012 "Project Management Study," ZweigWhite: www.zweigwhite.com/p-2162-project-management-survey-2012

NEWS

D+ for infrastructure

Only slight improvement from four years ago.

The American Society of Civil Engineers released its 2013 Report Card for America's Infrastructure, a comprehensive assessment of the nation's infrastructure across 16 sectors. Updated once every four years, this year's report card found that America's cumulative GPA for infrastructure rose slightly to a D+ from a D in 2009. The report card estimates total investment needs at $3.6 trillion by 2020 across all 16 sectors, leaving a funding shortfall of $1.6 trillion based on current funding levels.

The grades in 2013 range from a high of B- for solid waste infrastructure to a low of D- for inland waterways and levees. None of the categories received a lower grade than in 2009, however near-failing grades continue to be seen in numerous sectors that are crucial to the economy and Americans' quality of life.

Encouraging trends were found in sectors where focused investments were made. Six sectors (solid waste, drinking water, wastewater, roads, bridges, and rail) each experienced incremental improvements since the last assessment. America's rail sector saw the largest improvement, moving from a C- to a C+.

Key trends driving improvements:

- Renewed efforts in cities and states to address deficient roads, bridges, drinking water, and wastewater systems;
- Private investment for efficiency and connectivity brought improvements in the nation's railways, ports, and energy grid;
- Several categories benefited from short-term boosts in federal funding.

"A D+ is simply unacceptable for anyone serious about strengthening our nation's economy; however, the 2013 Report Card shows that this problem can be solved. If we want to create jobs, increase trade, and assure the safety of our children, then infrastructure investment is the answer," said ASCE President Gregory DiLoreto.

For the first time, the Report Card includes information for all 50 states and highlights initiatives and innovations that are making a difference. For example, Oklahoma created a plan to replace or rehabilitate over 950 structurally deficient bridges between 2013 and 2020. Philadelphia implemented a program to improve resiliency and address combined sewer overflows using green infrastructure, capable of capturing water from all but the most severe storms.

"We must commit today to investing in modern, efficient infrastructure systems to position the U.S. for economic prosperity," DiLoreto said. "Infrastructure can either be the engine for long-term economic growth and employment, or, it can jeopardize our nation's standing if poor roads, deficient bridges, and failing waterways continue to hurt our economy."

CONTRACTOR, from page 3

is now at the pre-construction meeting without requested items such as staff résumés and schedules, a red flag should go up. It's time to nip this in the bud and lay down some ground rules. Outline and review expectations and stay on top of the builder as much as possible.

2) **Schedule look ahead.** Wight received a very detailed three-week look-ahead schedule; Anderson did not. An organized contractor who is thinking ahead will overlay the look-ahead items with the overall schedule so they can see how things will impact the final completion date of the structure. If the contractor only provides bullet points in the schedule look ahead, it likely reflects the contractor's disconnect to the overall schedule, and makes the owner/architect wonder if the contractor will be on target to deliver the structure on time.

3) **Change orders.** Wight says that change orders will happen; it's part of the process. However, what is not acceptable is a change order that has a date of "to be determined." "Never accept a change order that has that. You are just asking for trouble. Go back to the builder and request specific information," he says.

CALENDAR

WOMEN IN DESIGN CONFERENCE UPDATE:
ZweigWhite's first ever Women in Design and Environment Professions conference is scheduled for May 9 and 10 in Boston.

Lean in?
There's been a lot of buzz recently about Sheryl Sandberg and her book, Lean In: Women, Work and the Will to Lead. Providing there is ongoing interest, we will organize a book discussion group at the conference in May.

Do women make bad bosses?
Leadership skills may be gender blind, but there are particular traps that women managers fall into. Marsha Anderson Bomar, **Stantec**, will be giving a presentation focused on ways that women can be more supportive of each other, learn to embrace role model status, and become positive examples to their peers and subordinates.

Are there unique barriers to leadership in A/E firms?
The burden of leadership can be daunting especially for women in architecture, engineering and environmental firms, which continue to stand out as predominantly technical, and male-dominated. Lisa Schauer, the first female owner of mid-sized engineering firm **MacKay Sposito**, will facilitate an interactive focus session to help identify and overcome obstacles to leadership.

Designing your agenda
In addition to the scheduled panels, keynote presentations, workshops, and focus sessions, we have carved out open time for participant-driven sessions. These could be industry-specific discussions, networking groups, lunch table mixers, or chat rooms. If you have a specific idea for a session or activity you would like to participate in, please let us know. Otherwise, come prepared to organize your customized experience!

Discounted conference fees expire April 10
Sign up now to qualify for the early registration fee ($595 for the first attendee and $495 for additional attendees from your firm). After April 10, the registration fees will increase to $795 and $695.

Registration fees include all conference sessions as well as breakfast and lunch on both days, plus a networking cocktail reception.

For more information about this upcoming conference email Claire Keerl, ckeerl@zweigwhite.com or log on to www.zweigwhite.com/conference/women-in-design-and-environmental-professions.

SURVEY

M&A activity remains moderate

Strategic acquisitions appear to be a popular option for many firms in the A/E/P and environmental industry.

By CHRISTINA ZWEIG
Contributing editor

A new ZweigWhite survey has found that almost one-third of all firms (30 percent) have made an acquisition in the past five years.

However, according to the 2013 edition the "Merger & Acquisition Survey of Architecture, Engineering, Planning & Environmental Consulting Firms," only 2 percent have been involved in a merger.

The survey included 54 firms of varied sizes and types from every region of the country.

For firms who have made recent acquisitions, the most common motivation of the seller was increased opportunities for staff, at 60 percent. Other reasons for sale included a failed ownership plan (25 percent of responses), third party valuation higher than internal distressed sale (10 percent of responses), and 5 percent offered "other" reasons.

The percentages of firms considering buying or merging with another firm increased this year, at 35 and 30 percent, respectively.

Looking forward. The percentages of firms considering buying or merging with another firm increased this year, at 35 and 30 percent, respectively, and 65 percent of firms report M&A is in their strategic plan for the next five years. Twenty-five percent of participating firms also reported they were considering selling to another firm.

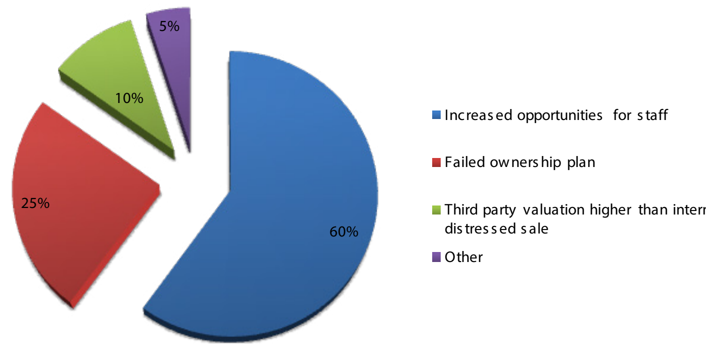
Future mergers and acquisitions may have differing motives and associated challenges. Among firms looking to make an acquisition, the highest-ranked reason for buying is geographic expansion, a mean of 3.7 on a scale of 1 to 5.

Among firms that completed an acquisition recently, the survey found that the most popular disciplines or services added were architecture (25 percent), followed closely behind with civil engineering and wetlands science (each 15 percent), and environmental consulting (10 percent).

For firms considering potential acquisition targets, civil engineering, architecture, design/build, construction management, and environmental consulting were all popular services/disciplines.

Out of all firm types, those in the environmental discipline or offering environmental services were most likely to consider M&A activity in the future. Regionally, this was more likely for firms in the Mountain and South Central regions, or firms with a high-profit level.

MOTIVATION TO SELL



Source: 2013 Merger & Acquisition Survey.

Successful moves. While respondents to the 2013 M&A survey reported difficulties in integrating their most recent acquisition, at least a quarter of firms gave the move very high marks – a median rating of 4 on a scale of 1 to 6. Firm leaders consider their most recent acquisition a success because they increased market presence and integrated their firms successfully.

Survey respondents commented anonymously on why their acquisitions were a success with statements such as, "Both entities are able to pursue and win work that individually we would not, within a year (before anticipated) the acquisition asked to drop their name from marketing materials as it was starting to get in the way" and, "Group quickly merged in with our staff and started sharing opportunities. We were profitable from the beginning." Other reasons for success included adding new disciplines and diversification of services.

For firms considering potential acquisition targets, civil engineering, architecture, design/build, construction management, and environmental consulting were all popular services/disciplines.

Despite these successes, many firms the in the design industry are still hesitant to merge or acquire, often citing culture clashes as the main concern. In the future, M&A activity may become a necessity. Among potential sellers, the highest-ranked goal for the sale is transition ownership. Less than a quarter of firms say they have an internal ownership transition plan.

Run your firm like a project

A brief instructional on how to do so.

June Jewell

GUEST SPEAKER

Clients often tell me that they were not trained in business concepts and struggle with how to run their businesses successfully. In reality, managing your business is not that different than managing a project. If you approach the management of your firm the same way that you do your projects, you may find that it is not as much of a challenge to operate it profitably.

YOUR BUSINESS PLAN IS LIKE THE GO/NO-GO PROCESS. The highest level decision you have to make in starting or running a business is to develop the firm's strategy. This includes determining what services you should offer, what industries you will target, and the geographies that you will focus your attention. The first step is to define the company's mission, vision and values, and do a SWOT analysis. The SWOT analysis is similar to evaluating your company's qualifications and competition on a project – it identifies your company's strengths, weaknesses, opportunities and threats.

By defining your target clients carefully and really understanding your SWOT, you will avoid spending valuable resources bidding on projects that you will lose money, your firm is not qualified to perform, or will not be successful for your firm. This is very similar to the go/no-go process you should use to decide what projects to go after. You should have very specific criteria for identifying your ideal clients, as well as your ideal projects.

THE COMPANY BUDGET IS THE SAME AS THE SCOPE OF SERVICES AND FEE ESTIMATE. After developing your business plan, you must set the financial goals and objectives for the business in a company budget. This is very similar to the project fee estimate. Just like the scope of services on a project, you must determine what your firm needs to accomplish during the year, and determine the dollar value to spend on each account to accomplish your goals. Your financial accounts are like the phases and tasks on the project, and the dollars are the resources that you will invest in your business to get the "job" done.

Also like a project, you can create a top-down and a bottom-up company-wide budget. Top-down budgeting is where you set financial targets and create the budget based on revenue figures that you ideally want or need to hit in order to cover costs and make the profit that management expects. Bottom-up budgeting is where you look at your individual resources and determine how much revenue they can realistically generate based on their expected utilization and performance, as well as the company backlog and pipeline.

After you have calculated your expected revenue both ways, you can compare the two to see if they are close. If they are close, you are probably on target with your forecasts and should have a reasonable budget. If the numbers are far apart, you will need to reexamine the details to understand how to make necessary adjustments.

FINANCIAL MANAGEMENT USES THE SAME PRINCIPLES AS PROJECT MANAGEMENT. Financial management of your firm should have a well-defined process. The company budget guides the decisions about hiring, spending, and investing; the project budget controls how resources are utilized, which subcontractors are engaged, and how much each phase should cost. Just as you meet every Monday morning to review the status of your projects, you should meet monthly to look at the health of your firm, including profitability, cash flow, and revenue forecasts through year-end. Good project management practices involve determining the estimated cost to complete (ETC) on a project, and the same is done in firm financial management by looking at the budget to actual income statement and determining where you believe the firm will end up.

See JUNE JEWELL, page 8

The highest level decision you have to make in starting or running a business is to develop the firm's strategy.

zweigwhite

‘I was that guy once…’

Not all PMs are stars. Rattling their cage a bit may just help them rise.

Christine Brack

PM PERSPECTIVES

I was at our recent Principals Academy in Denver and having breakfast with a table of attendees. They were swapping stories about that “one” employee everyone seems to have trouble with (and some firms have them in multiples). The tales ranged from the absolutely laughable to the downright frustrating. When nearly everyone had their chance to vent, the group became quiet as we resumed eating our eggs and bacon, reflecting on the real scenarios just shared.

A fellow sitting with us broke the silence and said, “I was that guy once.” This was the second day of the seminar so we had gotten to know a bit about him: he asked thoughtful and challenging questions, took copious notes, was fairly outgoing and talkative with the other attendees, and given that he was at our program, he was on his way to becoming a principal at his firm. He was also fairly young. I’ll call him Daniel for the sake of this article. It just wasn’t possible he was once a lazy, uninspired, 9 to 4:30, mumbling, sloppy work producing project manager. Or was it?

We all looked at him incredulously until someone chuckled nervously and asked what happened to cause such a transformation. Daniel had no reservation in recounting the years he lapsed into a project management coma and for no singular reason, slowly turned his focus to anything and everything outside the project and outside the office. They were good things but they were distracting things. It showed in his work and in his attitude. He wasn’t reckless, but he didn’t care. Daniel didn’t have much respect for his boss because he felt the boss had no respect for him. Looking back, Daniel understands why. Daniel’s boss just let him slide further, tolerated his presence, and never said a word – good or bad.

Then one day, another principal at the firm just couldn’t take it anymore, brought Daniel into the office one fine morning and hit him with the verbal crowbar and threw in a dose of reality to finish him off. Daniel returned to his cubicle indignant at first but then began to count the things he’d lose if he lost his job. He was slated to get married in the next six months and with no job, there would be no money, and then no girl!

Then he replayed the principal’s lecture over in his mind and found several compliments – Daniel was smart, he mastered things quicker than others, he had remarkable design talent for someone so young, he had great potential. But the key of the message was that he was wasting it. And if he wanted to waste it, he should do it at some other firm.

Daniel woke up from his stupor and got his act together. He did it without any fanfare or quest for redemption. He thought, worked, and performed like a project manager. He eventually moved on to a different firm and is thriving there too. He credits that principal with saving his professional life and reminding him about his passion for his work. He knows that his boss didn’t have the leadership skills or guts to help him out of his slump or make him aware he was in one. It was easier to complain about Daniel to other managers behind his back, rather than confront him altogether.

This isn’t a story one hears very often at a seminar for principals-to-be. Mostly, we hear about accelerated paths to success or natural steady progression because the architect or engineer is carefully mentored and guided by another leader. What makes Daniel’s narrative more impactful is not only his matter-of-fact style in relating it, but the simplicity of the solution. None of the folks at our breakfast table had already thought about really confronting that “one” person they were managing. And certainly none of them really thought their frustrating candidate was salvageable.

Every firm has that “one” project manager or team member. Before giving up on them completely and letting them hang like a big, black cloud, talk to them honestly. Believe it or not, they may actually be one of the firm’s next bright owners.

CHRISTINE BRACK, PMP, is a principal with ZweigWhite who specializes in business planning and project management best practices. Contact her at cbrack@zweigwhite.com.

Brick house

Most have witnessed the highs and lows of the cyclical design business. Now it's time to prepare for the future.

JEFF NUNNER

QUICK TAKES

We will one day be past this monumental downturn to our industry. Many were warned at the time we were choosing career paths that construction and those services related to construction were cyclical. Most have now lived both the awesome peaks and the low valley.

If you were not affected or are now beyond the downturn and growing – congratulations. Please send me an email and I will share your strategies. Many are still seeking a solid footing but now is the time to build your house out of brick and avoid or at least lessen future hardship.

While you are on rock-bottom bring a sack and collect rocks.

Management

- Cross train staff to be able to take on as many roles as possible
- Develop a continuous marketing program involving all staff as part of the sales force
- Constantly look for locations and new services to develop and diversify
- Find a niche
- Keep an open dialogue with others in and out of your core industry

Staff

- Understand your role goes beyond completing assignments successfully
- Find a way that best suits your talents and personality to market and sell your firm and yourself – this means everyone
- Continue to gain knowledge through continuing education and certification programs
- Embrace the opportunity to learn new skills and services

Fill your sacks now and build that brick house for the future.

JEFF NUNNER is a professional engineer and certified building contractor with 25 years experience specializing as owner representative nationwide. To learn more visit his website at www.nunnerprojects.com or send an email to jnunner@comcast.net.

JUNE JEWELL, from page 6

HIRING AND RESOURCE MANAGEMENT IS A BROADER VIEW OF PROJECT SCHEDULING. Determining how many employees your firm needs at any time, and estimating your future hiring requirements takes careful skill and good planning. It is the same process as getting the right people working on a project, and essential to delivering a profitable project and a happy client. Juggling your resources at the project level requires looking at what resources the firm has available. Deciding how many people to have on staff requires looking at the details of each and every project in your backlog. A good system can help you marry your individual project requirements with the overall picture of your employees and their skill sets to determine overall staffing requirements.

CASH FLOW SHOULD BE MANAGED LIKE PROJECT BILLING AND COLLECTIONS. Just as you must administer each project to ensure time is charged correctly and invoices are billed and collected on a timely basis, you should apply the same practices to managing your monthly cash flow. Cash flow is impacted by every element in your project lifecycle, and implementing rigid processes as well as comprehensive systems is critical to maintaining positive cash flow. The same principles apply to determining how spending decisions are made and collections are managed at the firm level as they are at the project level.

Identical guidelines apply to the management of your firm as you use to ensure that your projects are kept on track. If you manage your company the same way that you manage your (profitable) projects, you will find the mystery and complexity can be lessened, and good business practices, and results, will follow naturally.

JUNE JEWELL is the author of the upcoming book, Find the Lost Dollars: 6 Steps to Increase Profits in Architecture, Engineering and Environmental Firms. She is the president and CEO of Acuity Business Solutions, an award winning Deltek Premier Partner, focused on helping A&E firms and government contractors find opportunities, win business, deliver projects, and increase their profitability. Read more tips for A&E firms at her blog at www.AcuityBusiness.com/blog or email her at JJewell@AcuityBusiness.com.

OPERATIONS

Examining the past; planning for the future

Even HR departments haven't escaped the recession, but it's now time to reassess for growth.

By LIISA SULLIVAN
Correspondent

Some firms had to cut back on HR functions during the recession, while others did not. But, now that the economy is making a comeback, most companies are getting back to business.

Past examination. Kim Hansen, HR director at **Provost & Pritchard Consulting Group** (Fresno, CA), a 122-person engineering and consulting firm, shares that some primary areas where HR was affected directly included a significant list, examined below.

Recruiting: "We knew we had to regroup and determine where the workload was most affected and what we could, and could not, do about it. Recruiting came to a virtual halt; we looked to internal staff to retrain or reassign to avoid layoffs, if possible," Hansen says.

Layoffs and furloughs: "We had not faced serious layoffs for many years," Hansen says. "We tried to retain as many staff members as possible by using furlough instead of layoffs." She says the company had to explain why furlough was appropriate and necessary for overall company good and employee retention. "We still had some layoffs, which caused us to revisit or create procedures to ensure we were dealing with these issues in a transparent and respectful way," she says.

Kim Hansen, HR Director, Provost & Pritchard Consulting Group.

HR staffing: "Although we were not a large company, we had two, full-time HR employees," Hansen says. "As our overall staff size reduced, so did the day-to-day demands of HR. We focused on projects and updates that had been delayed and took on tasks and assignments to help in other areas." Then, the other HR staff person had the opportunity to move out of state and the position wasn't filled. This resulted in focusing on "what has to get done" and placed a hold on certain "luxury" projects (e.g., revamp of performance review and orientation programs).

Compensation review: "Many of our competitors were laying-off employees, so compensation review became even more important," Hansen says. "We knew we needed to keep our compensation plan marketable since key employees would become even more attractive to the competition. We were also in a position where across-the-board merit increases were not available." That meant that Provost & Pritchard had to keep watch to ensure our salary levels did not fall below the market and risk being far behind the curve when circumstances began to improve. The company also needed to make sure the entire compensation package remained competitive.

Budgets: "Although we always try to be circumspect with the company's money, with the economic downturn, we needed to be even more vigilant. We cut back on general advertising and closely reviewed where we spent money," Hansen says. "At the same time, we did not want to lose the things that our employees valued. We needed to retain some training and recognition budget dollars so we did not negatively affect our overall culture and internal vision. This also manifested in the benefits we could offer – we did not want to cut the value, so we worked to find creative ways to lower costs without sacrificing quality."

Company culture: No matter how well you plan and present, when layoffs happen, a general "pall" casts over the whole office. "We made sure we continued to communicate all we could so our employees understood what management was doing, our overall goals and the faith we had in them and the company's future," Hansen says.

Pam Gower, Director of HR, Pond.

Pam Gower, director of HR, **Pond** (Norcross, GA), a 230-person architecture, engineering and planning firm, says that, on the other hand, the firm experienced growth during the past recession years.

"This was due, in large part, to the diversification in our client base," Gower says. "Where some markets have declined significantly and we shared in the slowdown, others continued with needs that have resulted in growing work for our firm. We also provide niche services where competition has not been as fierce."

Patricia Davison, vice president and director HR, **H&A Architects and Engineers** (Glen Allen, VA), a 245-person firm, says that for a short period of time the firm tightened its belt and re-

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GOOD TO KNOW

About **half of firms** (55 percent) **have a personnel/human resources department** or at least one full-time, dedicated human resources staffer.

Source: 2013 "Policies, Procedures & Benefits Survey," ZweigWhite: www.zweigwhite.com/p-2150-policies-procedures-benefits-survey-2013

ON THE MOVE

LEO A DALY HIRES: The Denver office of **LEO A DALY** (Omaha, NE), a 1,000-person international architecture, planning, engineering, interior design, and program management firm, announced the hiring of **Jack Brinkley** as senior project manager.

Brinkley is an architect with more than 27 years of experience working on complex projects, including hospitals, medical office buildings, clinics, airport terminals, solar energy research buildings, clinical testing laboratories, and pharmaceutical and metallurgical research laboratories. He recently completed work as the resident healthcare architect for the 212-bed Sheikh Khalifa Medical Centre in Morocco. Brinkley's healthcare expertise aided in ensuring compliance with international building codes and AIA healthcare guidelines.

"We're excited to add Jack to the team," said Susie Jorgensen, LEO A DALY vice president, senior structural project engineer, and director of operations. "He's a proven design principal and project manager who has designed and managed many complex projects. He's a great addition to LEO A DALY's growing Denver practice."

Brinkley is responsible for developing LEO A DALY's growing business in the healthcare and federal markets.

KCCT FOUNDER RETIRES: Karn Charuhas Chapman and Twohey (Washington, DC), an architecture, planning and interiors, announced that founding partner **Thomas Twohey** will retire on April 1, 2013, KCCT's 30th anniversary.

Twohey is one of four founding partners of KCCT and serves as principal in charge of business administration. Financial and accounting experience has significantly influenced his understanding of architectural practice, enabling him to manage a growing, financially stable and design-driven firm.

With more than 50 years of professional experience, Twohey has specialized in health care, transportation, and the renovation and modernization of historic buildings. Award winning projects include the National Building Museum and the Ariel Rios Building façades.

Twohey focused on the development of national and international markets. As president of KCCT International, Ltd. Twohey managed the design of major transportation and planning projects worldwide in Taipei, Kaohsiung, Bangkok, Seoul, Manila, and London.

Prior to founding KCCT, Twohey participated in the design and construction of major infrastructure projects, including the Northeast Corridor Improvement Project and the Washington Metro system.

On the other hand, KCCT announced **Kevin Nisson** as its new CFO.

Sought out to provide firm-wide leadership, strategy, operations and financial management to KCCT, Nisson will work with the principals to continually refine and implement the strategic growth plan to expand and position the firm as a leader in providing program design and management services. With over 27 years of experience in professional services, Nisson will oversee the financial, human resources, administration, and information technology operations while fostering an environment of accountability, excellence, collaboration and innovation among the staff as well as to demonstrate fiscal responsibility.

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allocated one of its HR resources (our recruiter) to another functional area.

"We wanted to ensure that hires were value-added since all departments were part of budget reductions," she says.

Future planning. Hansen says that management and Provost & Pritchard is "cautiously optimistic" about what's next.

"We have begun to hire again. HR is focusing on growth, new training and helping supervisors to plot strategies for challenging their staff as business picks up and new opportunities present," she says. "As hard as some of this has been, this time has allowed us to refocus on the most critical areas of our business and recognize the things we value most. It caused us to pull together, think creatively and to ask hard questions about how we wanted to come through this period – as a result we remained profitable each year, have retained talented employees and are able to look forward with a lot of confidence."

Gower, at Pond, says that staff has expanded in proportion with the firm's needs.

"Our policies and practices have evolved primarily to address the changing demands of a growing business landscape," she says. "We have continued to open new corporate offices in several new geographic locations. Professional growth has increased pressure on our emerging leaders to move faster in their learning and their skills and to step up into new roles with broader scope."

Pond has also continued to enhance and evolve its benefits, both core offerings and ancillary. For the core benefits, the biggest changes have continued to center around healthcare.

"We chose to enter 2013 as a self-funded arrangement to better protect our investment in wellness as a long-term risk mitigation strategy," Gower says. "We will continue to adjust effectively moving forward with our goal being to continue to offer the most competitive benefits possible."

Gower adds that Pond's vulnerabilities are less likely to be related to benefits, compensation, and growth opportunities.

"We predict that negative impact risk would primarily relate to work/life balance, particularly during peak demand times, and the constant pressure on all our professionals to continue to learn and grow professionally," she says. "Likely, much of the HR goals on our FY '14 business plan will focus at addressing these areas. I foresee much greater attention on training and development as well as workflow alignment and cross utilization now that we have a growing employee base in remote locations. Expanding incentives and rewards will likely be considered to build on our commitment to excellence in performance."

H&A also continues to build its HR strengths to meet new demands.

"For example, we are a federal contractor so what is very important to us in terms of recruiting and compensation is in relation to recent OFCCP (Office of Federal Contract Compliance Programs) activities," Davison says. "We are in the process of implementing a new HRIS (human resources information system) to ensure we meet compliance requirements in the most efficient way possible. We have also identified an internal resource that we are training in the processes of recruitment to assume some of the responsibilities."

OWNERSHIP

ESOPs are well matched for A/E firms

Firms should, nevertheless, first meet certain conditions before adopting a plan.

By BRYAN SULLIVAN
Correspondent

Editor's note: This is the second of a two-part article.

A/E firms face the dual challenge of creating an exit strategy for the founding partners while at the same time creating a way for the junior partners to buy into the firm and become the successor owners.

"In many cases, competitors have little or no interest in buying out the existing founders because they know that if they buy the firm, junior partners may walk out the door and start up a competing firm," says John Menke, founder and president of Menke & Associates, Inc. and of Menke Capital Corp. in San Francisco. "Similarly, junior partners often have little or no interest in personally buying out the existing founders because they would have to do so out of their after-tax savings. This often proves to next to impossible."

Menke says that an employee stock ownership plan (ESOP) may be the answer.

"The company first establishes an ESOP, and the ESOP buys out the founders, usually in several stages over a period of years, using tax-deductible company contributions to the plan. This avoids the necessity of having the junior partners purchase the stock with their after-tax savings. Plus, it enables the founders to have their stock repurchased with tax-deductible or tax-free dollars, depending on whether the company is a regular C or an S-corporation," he says.

C-Corps and S-Corps. If the company is a regular C-corporation, then company contributions to the plan are tax-deductible to the company.

John Menke, Founder and President, Menke & Associates, Inc. and Menke Capital Corp.

"The ESOP then purchases part or all of a founder's stock by getting a bank loan and paying back this loan with these tax-deductible dollars. In the alternative, the ESOP purchases part of all of a founder stock by giving the seller a seller note and paying back this note with tax-deductible dollars," Menke says. "There is also a big incentive for the seller to use an ESOP for this exit strategy. At a minimum, the seller will be taxed on his gain at the current capital gains tax rate."

However, if the ESOP acquires at least 30 percent of the outstanding stock of the company, under the provisions of Sec. 1042 of the Internal Revenue Code, the seller can elect to defer any taxation of his gain indefinitely, provided that said seller reinvests the proceeds from the sale in other stocks or bonds of U.S. companies within 12 months of the sale.

"If the company is a subchapter S-corporation, the company can also make tax-deductible contributions to the plan," Menke says. "In addition, it can make S-corporation distributions to the ESOP pro-rata to the percentage ownership that the ESOP holds. Since the ESOP is a tax-exempt entity, these S-corporation distributions will be received by the ESOP entirely-tax free. The ESOP can then use its tax-exempt distributions, together with its tax-deductible contributions, to pay back a bank loan or a seller note that has been incurred in repurchasing a founder's shares."

Nine tax and financial advantages

1) Under §1042 of the IRC, as noted above, if an ESOP acquires 30 percent or more of the outstanding stock of a privately held company, any capital gains tax on the transaction is deferred indefinitely, provided that the seller reinvests the proceeds in "qualified replacement property" within 12 months of the date of sale.
2) Unlike a sale or merger, the ESOP permits the seller to sell any portion owned stock. A sale or merger usually requires sellers to sell 100 percent control.
3) The ESOP allows the company to repay principal with tax-deductible dollars.
4) C-corporation dividends paid on stock held by an ESOP are fully tax-deductible, provided that such dividends are either passed through to participants or are used to make principal or interest payments on an ESOP loan.
5) S-corporation distributions with respect to stock held by an ESOP are tax-exempt and can be used to pay back a bank loan or a seller note. To the extent that a bank loan or seller note is repaid with tax-exempt earnings, the debt is much more secure and can be repaid much faster than would otherwise be possible.
6) In the case of an S-corporation, if the ESOP purchases, for example, 100 percent of the outstanding stock, then 100 percent of the company's earnings will thereafter be exempt from federal and state income taxes, and 100 percent of these tax-exempt earnings can be used to repay a bank loan or a seller note.
7) An ESOP enhances a firm's ability to attract and retain key employees.
8) Studies have shown that ESOP-owned companies become more productive and profitable than comparable firms in the same industry not ESOP-owned.
9) An ESOP can be used to assist a company in making acquisitions of other companies with tax-deductible dollars. In addition, by using an ESOP the sellers can receive their proceeds tax-free under the provisions of §1042 of the code.

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TRANSACTIONS

BERGER GROUP BUYS: Berger Group Holdings Inc. (Morristown, NJ), a global engineering firm with annual revenues of $1 billion and operations in more than 60 countries, has added a design center of excellence for its international operations with the acquisition of **APIA XXI**, based in Santander, Spain.

With approximately 400 employees and more than 25 years of experience, APIA XXI is a multidisciplinary consulting engineering and management firm that designs global solutions within the main engineering and architectural fields: infrastructures, hydraulic works, town and city planning, environment, building, industry and energy, management and new technologies. APIA XXI has a wide network of branches established in four geographical focal points strategically distributed around the world: Spain, Latin America, North America (México and USA) and Middle East; and has developed projects in more than 25 countries. Through this acquisition, APIA XXI will operate as a design center of excellence under the Berger Group's international operating company, Louis Berger International.

"APIA's high-end and value-focused design services provide added depth to our growing international engineering portfolio and enhance our delivery of complex infrastructure and energy projects to our global customers," said Jim Stamatis, president of Louis Berger International.

HKS LAUNCHES PRACTICE: Clients who are looking to maximize the value of their facility assets with the knowledge and support of a disciplined advisory partner, can rely on a new practice: **HKS Knox Advisors.** Knox takes its name from and recognizes Harwood Knox Smith, the founder of **HKS Inc.** (Dallas, TX), a 1,000-person architectural design firm.

HKS Knox Advisors will combine and expand the advisory and research services of the former Clinical Solutions and Research Group (CS&R) and Medical Technology group. These two groups have functioned as assets of HKS's healthcare practice, which is ranked among the top by Modern Healthcare and BD World Architecture.

Frank Kittredge, Jr., executive director, will lead HKS Knox Advisors. He was formerly director of HKS's Clinical Solutions & Research group. He said, "HKS's global experience in healthcare facility design and proven qualifications in developing high-performance clinical programs and facilities with a business focus is a strong base from which to provide advisory services for hospitality, education, sports and other clients."

The professionals who are part of HKS Knox Advisors have built a reputation for integrating business advisory services with the facility design process. Advisory service offerings include:

- Strategic services: strategic thinking, strategic business plans and strategic facility planning
- Operations services: process and performance improvement, simulation; logistics and supply chain
- Financial services: capital budgeting, financial feasibility, return on investment and return on value, and first cost vs. lifecycle cost assessment
- Technology services: strategy, planning and procurement, medical equipment, communications and information technology
- Research: Center for Advanced Design Research and Evaluation (CADRE) funded research, HKS research and functional performance evaluation.

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Four disadvantages

1) An ESOP does not enable the current owners to cash out as quickly as when they sell to a third party. In a sale to a third party, the sellers usually receive all cash. In an ESOP sale, the exit is more gradual. Usually, the transaction will be financed with a bank loan and/or with seller notes. If the transaction is financed with seller notes, usually the sellers will need to stay involved in the business until the notes have been substantially repaid.

2) In a sale to an ESOP, the ESOP cannot pay more than fair market value, as determined by an independent appraiser. Fair market value must be based upon the price that would be paid by a financial buyer. It cannot be based upon the price that would be paid by a strategic buyer.

3) If part or all of the stock is purchased by an ESOP, management must be mindful of its obligation to operate the business in the best interests of all shareholders, including the ESOP.

4) When participants die or reach the normal retirement age, their company stock is usually repurchased in five equal installments starting in the following year. When participants terminate employment for any other reason, their company stock is usually repurchased in five equal installments starting in the year following a five-year break in service. Although this repurchase obligation is spread out over a period of five to 10 years, the company will nevertheless need to plan for these repurchase obligations so that the funding will be available when the need arises.

When do you make the move? An ESOP should be considered whenever a firm has one or more senior partners who are considering retirement within the next three to five years. "However, many firms adopt ESOPs much sooner than this as a way to increase employee incentives, lock in employees, and reduce employee turnover," Menke says. "In some cases, where the founders plan to sell the company to a third party in five to 10 years, the ESOP is used as a way to cut in all of the employees for some degree of ownership before the company is sold."

In other cases, a company may decide to adopt an ESOP and "pre-fund" it with tax-deductible contributions of cash for several years prior to the retirement of one or more senior partners.

"This enables the ESOP to build up a cash reserve, so that when the senior partner retires, a good portion of the purchase price for his shares will have already been accumulated, thus reducing the need for bank borrowings," Menke says.

Generally, a firm is a good ESOP candidate when it has been in business for a number of years, has a good history of profitability, has an ongoing management team, and has 10 or more employees. On the other hand, companies that are highly cyclical or that have little or no profits are not good ESOP candidates.

"Often, the starting point for considering an ESOP is to get a current valuation of the fair market value of the company and then determine if the company has the necessary cash flow to cash out part or all of a founder's shares," Menke says.