THE ZWEIG LETTER

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March 7, 2011, Issue 901

EDITORIAL

Growing by acquisition…

ZweigWhite brings publications and events back to the fold, and gains new and expanded powers.

On Feb. 16, ZweigWhite closed on the acquisition of the engineering media assets formerly owned by Stagnito Media. Some of these assets include the print and eMedia versions of *Structural Engineering & Design* (*www.gostructural.com*) *CE News* (*www.cenews.com*), and *Rebuilding America's Infrastructure* (*www.rebuildingamericasinfrastructure.com*); eMedia vertical channel *HubDOT.net* (*www.hubDOT.net*); and events and eMedia assets AEC Technology Strategies (*www.aectechstrategies.com*), Best Firms To Work For (*www.bestfirmstoworkfor.com*), IPD Channel (*www.ipdchannel.net*), and more, including an extensive webcast series and a unique PDH course series available through print and online. Best of all, we got some great, experienced people who are passionate about the readers, clients, and markets we serve, and have put them up in a new, expanded office in downtown Chicago in the heart of the action.

Mark Zweig

If these publications and events being part of ZweigWhite sounds familiar to you, it's because they were at one time. When we sold our company in 2004 to a Chicago-based SBIC (small business investment corporation) and I "retired" to be a college professor, real estate developer, and investor/outside director for a number of engineering, design, and construction companies, ZweigWhite was merged with the then-publishers of *CE News* and *Structural Engineer*, Mercor Media. Due to a variety of factors, the former Mercor firm was never really integrated with ZweigWhite (I wasn't there directing the show or I can assure you it would have been!). It was then split off from ZweigWhite in 2009 as a part of an SBA order, after they decided that our SBIC had too much money invested in one company. After yet another ownership change occurred at ZW, I was redrafted to run the firm in 2010. I re-upped with a new investment in the company in late 2010 and am now the owner of ZweigWhite, along with an amazingly entrepreneurial fellow named Greg Lindberg, founder of Eli Global, and our mezzanine lender, BIA Digital. With a revised capital structure and entrepreneurial spirit, along with a whole host of new team members who are creating and launching unique new product and service offerings, we have solidly turned around ZweigWhite and are entering

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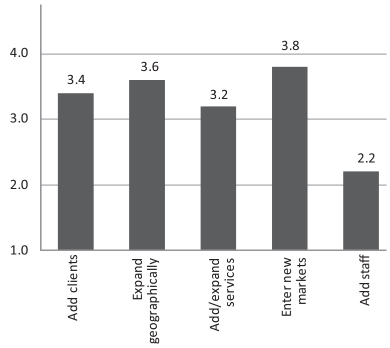
I'm really excited about these publications and events. Of course, we won't rest on our laurels, because "good" is never "good enough" as far as we are concerned.

TRENDLINES

M&A reasoning



Buyers have a wide range of reasons for getting into the M&A market—everything from adding clients or staff to adding services or branching into new markets. On a scale of 1 to 5 (where 1 is the least important and 5, the most important), the highest-ranked reasons for an acquisition, among firms looking to make an acquisition, are to enter new markets and/or to expand geographically (a mean of 3.8 and 3.6 respectively), according to the 2011 *Merger & Acquisition Survey*. Not surprisingly, adding clients (3.4) ranks third in top reasons for an acquisition. The lowest-ranked reason for an acquisition is to add staff (2.2).
— *Margot Suydam, Survey Manager*

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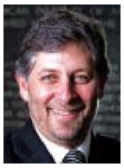

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into our next major growth phase.

I'm really excited about these publications and events. Of course, we won't rest on our laurels, because "good" is never "good enough" as far as we are concerned. *CE News* has always been a valuable magazine and we are going to make it better with a renewed focus on the tagline, "For the business of engineering." I think we can make it much more like an engineering-firm version of *Inc. Magazine*, something that will give us a unique niche. *Structural Engineering and Design* is also a good publication and one that we will rename *Structural Engineer* (as it was once called) and refocus it on promoting, supporting and celebrating the unsung heroes of the design and construction world: structural engineers. Our PDH series has been very successful— it is something that allows the participant to take a course, packaged along with one of our magazines, online— and get PDH credits for it. And our Best Firm to Work For Conference and A/E/C Technology Strategy Conference have each enjoyed a unique niche for our industry. We're going to make them bigger and better, too.

I could tell you about all of the wonderful synergies we expect between the former Stagnito Engineering Group and the new ZweigWhite, as we expect there to be many. You, however, as practical, pragmatic and skeptical design and construction professionals, have heard these promises many times before. Maybe you have made them yourselves if your own firm has gone through a merger, acquisition or sale. "There will be synergies. We will bring more capabilities to you— our clients. We will have more resources than we ever had before to better serve you." But the fact is it will all just be a bunch of B.S. and empty promises UNTIL it becomes a reality. So, the onus is on us. If you'd like to let me know what you would like to see from us in *CE News* or *Structural Engineering and Design*— or any of our other product and service areas for that matter— drop me a line at *mzweig@zweigwhite.com*, or call or text me on my cell at 508-380-0469. I'm all ears!

MARK ZWEIG is the founder and CEO of ZweigWhite.

A/E BUSINESS NEWS

GREEN REAL ESTATE PERFORMS BETTER: UK's Royal Institution of Chartered Surveyors has just released a study showing sustainable real estate investors have a competitive advantage in the market, even during a difficult economy.

The report, "Sustainability and the Dynamics of Green Building: New Evidence on the Financial Performance of Green Office Buildings in the USA," confirms an earlier study's findings that even in difficult economic times, so-called "green" office buildings can offer economic benefits to investors, including higher rents and lower risk premiums.

The study found that green office buildings in the U.S. performed better during the economic downturn of 2008 and 2009 than their comparable non-green, high-quality property investments. The findings, which are based on North American data for buildings certified by the EOA's Energy Star Program, illustrate that rents and occupancy rates for green office buildings were higher during the 2007 to 2009 period than for properties that have not had energy-efficiency measures incorporated into their structures.

The report is authored by Piet Eichholtz and Nils Kok of Maastrict University, and John Quigley of the University of California, Berkeley. Findings were presented on Feb. 22, at the New York University's Schack Institute of Real Estate, Center for the Sustainable Built Environment's 1st annual Conference on Sustainable Real Estate.

HOME PRICES STILL FALLING: Data through December 2010, released Feb. 22 by Standard & Poor's for its S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices, show that the U.S. National Home Price Index declined by 3.9% during the fourth quarter of 2010.

The National Index is down 4.1% versus the fourth quarter of 2009, which is the lowest annual growth rate since the third quarter of 2009, when prices were falling at an 8.6% annual rate. As of December 2010, 18 of the 20 MSAs covered by S&P/Case-Shiller Home Price Indices and both monthly composites were down compared to December 2009. Both Los Angeles and San Francisco reported negative annual rates of return in December, leaving San Diego and Washington, D.C., as the only two cities where home prices are increasing on a year-over-year basis, 1.7% and 4.1%, respectively.

RESOURCES

ENTERING THE FEDERAL MARKET: The federal government is one of the largest purchasers of architecture, engineering, construction, planning, and environmental services in the world. Federal agencies can be attractive and reliable clients, particularly in a down economy. Recent federal spending initiatives have increased this market's appeal for A/E/P and environmental consulting firms struggling to recover from the 2008 recession. According to a November 2010 ZweigWhite survey of 68 firm leaders, government and municipal work ranked as the number two hottest market for 2011. A rise in government stimulus spending since 2009 has increased the number of opportunities for A/E/P and environmental consulting firms at a time when private spending and financing seem scarce.

Unfortunately, more money and more projects mean more competition between firms for government contracts. The federal government market isn't easy to navigate, and procurement rules can easily overwhelm the most experienced firms. How can you make sense of the federal government market and differentiate yourself from the competition to win federal government contracts? The *Guide to Winning Federal Government Contracts for A/E/P & Environmental Consulting Firms*, 2nd Edition will show you how.

For more information or to buy a copy, call 800-466-6275 or log on to *www.zweigwhite.com/zw-1073.aspx*.

THE ZWEIG LETTER

The voice of reason for A/E/P, and environmental consulting firms.

320 Rollston Avenue, Suite 102
Fayetteville, AR 72701

Mark Zweig | Publisher
mzweig@zweigwhite.com

João Ferreira | Managing Editor
jferreira@zweigwhite.com

Julie Kyle | Editor
jkyle@zweigwhite.com

Tel: 800-466-6275
Fax: 508-653-6522
E-mail: *info@zweigwhite.com*
Online: *www.thezweigletter.com*
Twitter: *twitter.com/zweigwhite*
Blog: *zweigwhite.blogspot.com*

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TOP PLAYER

High performance DNA the answer

The measure of true success lies in knowing what matters and maintaining focus.

You first need to define success for you and your firm before you achieve it.

Those are the words coming from Douglas McKeown, CEO and chairman of the board at **Woodard & Curran** (Portland, ME), a 600-person integrated engineering, science, and operations firm. The firm is also No. 60 on *The Zweig Letter* 2010 Hot Firm List.

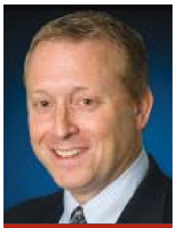
In this interview, MKeown shares his insights on living by your mission.

***The Zweig Letter:* What does it mean to be a Hot Firm?**

Douglas McKeown: Being a Hot Firm once is a nice recognition of a great year (or two), and being on your list for multiple years is reflection of having the right people executing the right strategy. Sustaining growth and profitability in this economy and over many years is a great reflection on our people and the work they do to earn client trust every day. A key part of our strategy is to sustain growth and a reasonable level of profitability such that our employees have the opportunity to work on new and more challenging assignments. Without steady growth the careers of our people stagnate and we risk losing our most valuable asset.

***TZL:* What is it in your DNA that drives you to success? Is it audacity and risk-taking; a can-do attitude and a relentless pursuit of perfection; something else more abstract?**

DM: The DNA of our firm is the key to our success. We have a rigorous interview process to make sure the people we hire share similar values and want to be part of the Woodard & Curran team. Our DNA is one of high performance, where we put concern for our employees and our reputation ahead of our wallets. As a result, our people, clients' priorities and the commitments we make to them become the most important driver of business decisions. We cherish those relationships and our clients' trust in us and focus on what we need to do to maintain that trust and confidence. That's what drives us. I take great satisfaction from seeing our employees make decisions based on that principle without needing to check in with me or other members of the senior management team. Then I know it's part of our DNA.



Douglas McKeown, CEO and Chairman of the Board, Woodard & Curran.

***TZL:* In today's difficult business climate, what does it take to succeed? Is the spectrum of failure a motivator?**

DM: Each firm must decide what their definition of success is and deliver on that. In a tough economy it is critical to be true to your values and genuine in your actions. Don't try to be someone you're not. If prioritizing your firm's reputation ahead of its wallet, doing exceptional work, and taking care of your people is not genuine and is practiced only during strong economies when it is easier to do, then success will not be sustained during tough times. That's when employees and clients alike watch to learn what matters to the firm. I think our continued success through the past few years has been the result of not losing sight of what's important, of what matters, even when it was tough to do. Every firm is going to have a different balance of growth goals, profitability goals, acquisition goals, cultural goals, etc. Knowing what matters to your people and maintaining focus is essential. It is easy to be led in another direction during tough economic times. Because of these challenges, I think this economy provides a real opportunity to emphasize what matters and a chance to prove to your people and your clients what you've been preaching. Yes, it is tough, but it is an opportunity to distance your firm from the status quo, from the competition. You always learn more about your self and your firm when times are tough. Take advantage of that.

> "Don't try to be someone you're not."

***TZL:* Where do you see this industry in 10 or 20 years? What trends are influencing it? What about your company?**

DM: The industry is being shaped significantly by M&A activity, and more importantly, the horizontal integration of other players into this business. Competing with and/or partnering with nontraditional firms like Siemens, GE, and management consulting firms has changed the landscape considerably. We need to be much more sophisticated and recognize that the economics of the deal/project are influencing the decisions more dramatically than the technical expertise we can offer. Financial sophistication, integrated capabilities, and partnerships play a much more significant part of the decision on what to do.

Sophistication in technology and putting it to use to stay ahead of the curve will influence our business and be a differentiator going forward. This includes technology applied to solve client issues, to be more efficient in how we do our work and distribute it around the firm, and to communicate differently and more effectively. We have a new generation of employees and clients who have grown up in a more technologically advanced world and expect us to harness the power of these new technologies in how we work together.

I'm not much of a 'crystal baller' with regard to where I see things in 20 years, but I take great comfort in knowing that the work we do adds value to society and will always be needed. It will be delivered in different ways but it will be delivered. We won't wake up one morning to find out people no longer need clean water and clean air. We just have to stay on top of how these needs are evolving and changing. So it is an industry we can invest in knowing it has a future.

Read complete interview in *The Zweig Letter* online at *www.thezweigletter.com.*

NEWS

Housing to finally show growth

It took a few months to materialize, but experts agree recovery is around the corner.

By JULIE KYLE
Editor

The big bounce expected last year in residential construction is right around the corner, analysts say, and housing affordability is at its highest level in the 20 years since it has been measured, according to National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI) data released in January.

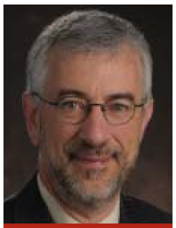
Affordability is definitely an important contributor to recovery in housing markets, says Robert Denk, assistant vice president for forecasting and analysis with the NAHB.

"Rapidly rising prices during the housing boom undermined affordability and contributed to the housing bust. The last few years of painful house price declines has been bitter medicine, but represent a return to more normal levels for house prices," Denk says.

"These more normal prices are restoring affordability, which will support recovery in both the multifamily and single-family housing markets," he says.

DEMAND FOR RENTAL HOUSING ON RISE. Single-family home starts are forecast to jump 20% to $120.4 billion, and similarly, multifamily housing is expected to increase 24% to $24.1 billion this year, according to a McGraw-Hill Construction forecast.

"Continued improvement for the economy would help boost homebuyer demand and housing construction, but there are several risks," says Robet Murray, vice president of economic affairs with McGraw-Hill. "Recent surveys of bank lending officers suggest that lending standards are not being tightened further, but banks remain cautious with regard to easing standards. The economic recovery to this point remains fragile, and the recent rise in oil prices could stall the economy in the near term. An economy which grows less than 3% in 2011 would make a 20% increase for housing a stretch, and postpone much of the expected improvement for homebuilding to 2012."



Ken Simonson, Chief Economist, AGC.

New construction of multi-family homes jumped 87% in the three-month-period from November to January, almost double what happened in the same period a year ago, Ken Simonson, chief economist with the General Contractors of America, told Bloomberg television. Demand for apartments, and new apartment construction, appears to be rising. A steady increase in private-sector employment is helping to drive that demand, as well as realignment and closure of military bases that will bring more military families to rural pockets around America that lack rental housing.

"I'd say the rise in multifamily construction is just starting. Multifamily was extremely depressed for several years," Simonson said.

The single-family housing boom took people out of rental market and put them into home ownership. "Now we're seeing the opposite trend, single family houses and condos are being offered as rental properties... I think there are enough people wanting to rent, instead of own, or live with someone else, and that demand will spark a lot of new construction of purpose-built rental housing."

Simonson said the foreclosure crisis is affecting the market in two ways: People forced out of homes they owned due to foreclosure have become candidates for renting; and the properties banks can't sell may be added to their stock of rental housing.

The Architecture Billings Index (ABI), a leading economic indicator of construction activity, slipped almost four points in January to 50.

"This slowdown is indicative of what is likely to be a very gradual improvement in business conditions at architecture firms for the better part of this year," said AIA chief economist Kermit Baker.

"We've been taking a cautiously optimistic approach for the last several months and there is no reason at this point to change that outlook. There are still too many firms that continue to see weak market conditions to expect a dramatic increase in the demand for services in the design and construction industry."

January ABI sector data for commercial/industrial reflects a score of 54.6, multifamily residential 53.7, institutional 51.3, and mixed practice the lowest, at 48.7.

EXCESS INVENTORY. Right now, many estimate that there's somewhere around three million excess units of residential inventory. That's a huge number that is equal to about a two-year supply of houses, relative to the current household formation rate, Baker says.

"The question might be, 'Why do we need to build any more housing if we have three million excess homes around the market?' And the answer is that 'The supply of vacant units and current demand for housing do not always match'."

"It's hard to tell what the real status is for all of this excess inventory. There are a lot of homes being held off the market until it fully recovers," and a lot of homes are investment properties currently being used as second homes or vacation homes, he says. In cities like Las Vegas or Phoenix, there's a lot of housing available. But in older rustbelt markets like Cleveland and Pittsburg, there is stronger demand for housing and limited inventory, and new construction is needed to fill in the gaps.

Even a healthy recovery in 2011 would leave residential starts well below the long-term trend in terms of homebuilding, Baker says. "Growth is relative, in the sense that there were about 600,000 residential starts last year. The consensus is that there to be about 750,000 starts in housing this year, and percentage-wise, that's a pretty healthy number. But when the housing market fully recovers and we get back to longer-term trends, we'll double that rate to 1.5 or 1.6 million," Baker says.

INTERVIEW

A passionate advocate for the profession

New AIA president recognizes the challenges facing the profession, but its defense is a role that suits him.

By JOÃO FERREIRA
Managing Editor

As the biggest advocate for the architecture profession, newly minted American Institute of Architects President Clark Manus sees himself leading the charge at a pivotal juncture— while the profession faces many challenges, it is also getting due recognition.

Design enhances lives— a truth that is becoming more self-evident. Now more than ever architects are seen as "problem solvers," Manus says.

As such, he relishes the role of being "part of increased dialogue and dynamic about the importance of design" and "the importance of what design can do."

"The biggest importance is really being the voice and the face for the profession," says Manus, who is also CEO of **Heller Manus Architects**, a 35-person studio in San Francisco.

Manus, who grew up on the East Coast and dreams to one day run the Tour de France, has lived in the Bay Area for 27 years, where he helped found Heller Manus Architects 25 years ago. He has since been involved in advocacy for the profession.

He was president of AIA San Francisco and served on the AIA California board. He was AIA national vice-president and chairman of the Board Advocacy Committee and the 2010-2015 Strategic Plan.

Now he considers himself in "remarkable company" in his new role at the helm of the 80,000-member, 154-year-old organization.

Manus' strong belief in advocacy starts at the grassroots level, in his community. After the 1990 quake in San Francisco, Manus had a crucial role in pushing for the removal of the Embarcadero elevated freeway— leading to the revitalization of a waterfront area of the city that has since become a hub of activity.

While a quake hasn't shaken the profession, nobody would deny that architecture is a trade suffering major challenges (blame the economy— but only partly).

Clark Manus, President, American Institute of Architects.

Manus says the economic crisis has impeded the ability of many projects to take hold, which he says is the biggest challenge facing the profession.

The emergence of the International Green Construction Code, in which the AIA has been closely involved, will also shift the baseline for the design profession, he says. A model IGCC code is expected by the end of 2011.

However, such challenges create opportunity.

As in life itself, change has been a constant in this trade. One hundred and fifty years ago, architecture wasn't even a defined profession.

A few decades ago— when Manus started working— parallel rules and Mylar dominated. Now the computer age is changing the profession again, helping push collaboration and efficiency.

"The tools have changed for the profession, but the underlying elements about the importance of design have not," Manus says.

Manus sees Building Information Modeling— a technology-enabled process— and Integrated Project Delivery— partly enabled by BIM— as the biggest trend in the profession, which he believes will generate a "greater benefit in the delivery of projects."

Climate change and how design professionals can help craft solutions to deal with the alterations already underway is also another major trend in the profession, Manus says.

"We're really talking about building efficiencies," he says, adding that AIA is leading by example in this area. The AIA cut use of energy by 50% in its headquarters building in Washington, D.C., a fact that Manus is happy to advertise.

Manus believes that within the context of sustainability, concepts of collaboration such as IPD will gain an increased prominence within the profession.

"I think there is a really desire, particularly when you look at sustainability," he says.

Lastly, Manus believes we're not alone. The world has become a small place and to compete architects must become global practitioners. Fortunately, the AIA is already observing the desire of many American architects to work abroad in places such as China, India, and Brazil, Manus says. He has worked extensively in China, for example.

In a changing environment, Manus agrees that enhancing the value proposition is a big chunk of success. That means that architects will be pushed to show that their designs offer real solutions more than ever.

Instead of acting on assumptions, architects will have to show that their solution is the right solution.

Concepts such as evidence-based design and lifecycle analysis before a sketch is drafted will become more common.

Manus says that "the fantasy of not having quantifiable data" is a "denier of good design," thus the importance of the above concepts grows.

Another piece of advice from Manus: Learn how to run your business.

"How can you not understand the importance of business practices?" he says. "You just won't survive."

FEEDBACK

When is it time to move on?

In reaction to Mark Zweig's editorial, reader proposes that sometimes firms should just simply close shop.

In his editorial "Don't Let Things Slip" (*The Zweig Letter*, Feb. 7, Issue 897), Mark Zweig provides a whopping list of things firms tend to neglect after some time. Courtney Mann, marketing and graphic design for **SCS Engineers** (Long Beach, CA), a 990-person environmental engineering and construction firm, wrote:

An article idea which may be too edgy for your publication might be, "Knowing when it is time to move on." There is no shame in doing so— but clinging to ideas that have run their course out of fear of change or nostalgia is not prudent.

Mark,

I am writing in reference to your article "Don't Let Things Slip" from the Feb. 7 issue of *The Zweig Letter*, specifically in response to your opening thoughts.

While your examples/action items in response to your premise are your typically pithy, shrewd and insightful commentary, I think it is generally presumptuous to assume any firm is going to continue *ad infinitum*.

Organizations of any discipline whatsoever have a beginning and an end. No matter what measure of success a firm has enjoyed, when it is time to pack it in, better to do so than keep serving up warmed-over leftovers.

It takes discernment to know the "signs of the times" of a given vision, but the wise will heed when it is time to buckle down and address slippages (as you describe so well) or to reinvent entirely— or fold and do something else. An article idea which may be too edgy for your publication might be, "Knowing when it is time to move on."

There is no shame in doing so— but clinging to ideas that have run their course out of fear of change or nostalgia is not prudent.

Before addressing slippages, a firm would do well to know where it stands first. Slippages may just be the opening measures of the corporation's swan song.

Hope these are helpful thoughts.

Ps: If I haven't said it before, I greatly appreciate the ZW logo, as well as your newsletter presentation: sharp, attractive and very navigable.

MARK ZWEIG'S RESPONSE: Hi, Courtney! Thanks for your comments. Right on! I have addressed that very topic as it relates to principals— knowing when it is time to move on— but never with a firm. I have to support the idea that a firm CAN continue on indefinitely IF it does reinvent itself periodically. You are correct that it must happen at times.

Thanks for reading and for sharing your insight with me.

Mark.

RESOURCES

GREEN BOOK: Ross Spiegel, an associate at **Fletcher Thompson** (Shelton, CT), a 130-person architectural, engineering, and interior design firm, announced the publication of the third edition of *Green Building Materials: A Guide to Product Selection and Specification* by John Wiley & Sons.

Spiegel leads the firm's Green Team and is an authority on the subject. Described as "the ultimate user's manual to green building materials," the first two editions of this seminal reference book have sold over 7,200 copies worldwide. The latest edition includes both expanded and new content. The book offers guidance on the selection and specification of green building materials and is an excellent hands-on guide to today's newest range of green building materials.

Spiegel has more than 30 years of experience in writing specifications and contract administration. He has been a member of The Construction Specifications Institute since 1978. Spiegel has served in numerous positions on the chapter, region, and Institute levels and is a former President of the Institute. Since 1994, he has served as CSI's liaison to the U.S. Green Building Council and has served on their Board of Directors, the LEED Steering Committee, and chaired the Greenbuild Steering Committee.

For more information contact Fletcher Thompson's director of marketing, Diane Kozel, at 800-201-5592, or visit *www.fletcherthompson.com.*

FROM THE CHAIRMAN

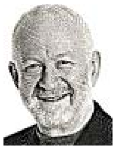
KM & TL

Read on and you'll find out what the above means.

What, you may ask, is this all about? A few days ago I began a blog dialogue (I feel like I'm finally entering the 21st century when I participate in a blog conversation) following on my article in *The Zweig Letter* back on Nov. 15 (Issue 887) titled "Two Degrees of Separation," where I wrote about accessing expert knowledge. The deeper subjects, of course, are **K**nowledge **M**anagement (developing a firm's body of expert knowledge and making it accessible to the entire firm) and **T**hought **L**eadership (developing new and innovative ideas through research and application and sharing those ideas in a way that improves the profession and the industries we serve). Thus, KM and TL.

This dialogue revolved around a concern that fee pressures and survival instincts were combining in firms to discourage or stop investment in KM and TL. "It's all about billable hours," resounded in the conversation. "Who has time to invest in KM and TL? How can we convince our CEO to resume shut funding for this sort of thing and continuing education as well?" I was concerned about what I was reading because I believe that successful firms create and sustain a culture of knowledge management and thought leadership despite economic conditions. In fact, KM and TL never work if directed or assigned. So, I chimed in, "If the CEO needs convincing, get rid of the CEO or join another firm." Well, that seems to have stirred a hornet's nest, so I kept adding to the dialogue.

Knowledge comes from passion. You search out deep knowledge about something because you're passionate about it. You connect yourself with others who share your passion. The proliferation of knowledge in a firm and access to it comes as a result of a culture in which people share their passions. When passions are broadly known in a firm, you know whom to ask about what; whom to talk to in order to gain knowledge about your problem and place your question in context.



Ed Friedrichs

Knowledge assets are not assembled. It's not worth the time to build an elaborate database of knowledge. What takes time is building a culture and structure through which everyone knows how to connect with the person who has the knowledge and facilitate (no, lubricate) that connectivity. This is not about spending money, it's about developing a culture of rich networks that share and collaborate.

Likewise, thought leadership is the outcome of a passionate commitment to a subject. People become thought of as leaders because they are constantly gathering knowledge about a subject that fascinates them so compellingly that they never stop gathering data and talking to people who are also deeply engaged. It's not a matter of expending otherwise billable time. Thought leaders just can't help themselves. These are people who make time to pursue their passions. If someone is asking for permission to spend time on something, they're either not passionate enough or you have a very oppressive culture in your organization. Your culture must support people's passions, encouraging them, creating a platform (print, speaking engagements, membership in related organizations) for them to expose their thought leadership.

If no one in your organization is passionate enough about something to evolve into a thought leader, go out and find some passionate people (always my first question on an interview— What are you so passionate about that you're always sneaking time from other obligations to work on it?). And if your CEO doesn't get this and is not a thought leader, see my advice in the second paragraph.

If *you* have to pitch your CEO to resume your focus on TL and KM, why aren't you the CEO? He or she has clearly lost their way. I don't care how tough the market or the economy are, the CEO's role, through thick and thin, good times and bad, remains the same:

1) Lead client relationships— for sales, for referrals and for satisfaction.

2) Create an atmosphere where people want to work collaboratively with you and each other to do work that makes your clients successful.

3) Contract for services and manage their delivery in a way that generates profits.

4) Lead innovation through thought leadership and knowledge management.

5) Create a collaborative atmosphere with all stakeholders (contractors, subcontractors, suppliers, manufacturers, building officials, lenders, everyone) in order to bring the best and brightest resources and work effort to bear on your clients' matters.

The CEO has to attend to the above (and not necessarily in that order) to be worthy of carrying the mantle.

EDWARD FRIEDRICHS, FAIA, FIIDA, is ZweigWhite Group's chairman and the former CEO and president of Gensler. Contact him at *efriedrichs@zweigwhite.com*.

Knowledge comes from passion. You search out deep knowledge about something because you're passionate about it. You connect yourself with others who share your passion.

GUEST SPEAKER

What to know about insurance certificates

Changes null old practices, so here's how to prove coverage while avoiding issues.

As they renew agreements or enter into new contracts, architects, engineers and construction managers need to address significant changes in the standard certificate of insurance format and wording, and work with their insurance agents and brokers to address them.

Today, almost every contract for design or construction services involves the use of a certificate of insurance. The certificates are typically issued in response to contractual requirements that a party to the contract provide "evidence" of certain insurance. Used in lieu of sending a copy of an entire insurance policy, the certificates provide a snapshot of the general insurances carried by an organization.

In 2009, ACORD, an industry group that sets standards for certificates and other insurance documents, made changes to its certificate forms. Most insurance companies subsequently adopted the new ACORD certificates, and they are now the only ones recognized in many states. A key change involved revising the cancellation language as noted here:

Old text: Should any of the above described policies be cancelled before the expiration date thereof, the issuing insurer will endeavor to mail ___ days written notice to the certificate holder named to the left, but failure to do so shall impose no obligation or liability of any kind upon the insurer, its agents or representatives.

Dan knise

New text: Should any of the above described policies be cancelled before the expiration date thereof, notice will be delivered in accordance with the policy provisions.

This change is significant because the typical contract language "requires 30 days' notice of cancellation."

For years, insurance agents and brokers used the ACORD form language (old text) and inserted "30 days'" in the blank to comply with such requirements. However, this will no longer be possible.

In fact, almost no insurance policy has a straight-forward "30 day notice of cancellation" provision. Instead, insurance policies typically have a three-part cancellation provision as follows:

- The insured can cancel the policy at any time (with no notice required);
- The insurer can cancel the policy for any reason other than non-payment with 30 (or on occasion, 45) days' notice; and
- The insurer can cancel the policy due to non-payment of premium with 10 days' notice.

Adding to the complexity, the policy cancellation provisions require only that notice be sent to the named insured and the certificate of insurance language provides only for such notice to the certificate holder and no other parties.

By comparison, many contracts require the certificate issuer to notify "all additional insureds."

Given the new certificate language, traditional approaches that may have attempted to reconcile the contractual obligations and certificates with coverage provided by the underlying insurance policies are no longer possible.

DESIGN FIRM CONTRACTS AND THE CANCELLATION NOTICE. In light of the wide use of the new certificates of insurance, design firms and their insurance brokers and agents need to rethink both what they can agree to in a contract and what they can state on a certificate of insurance. Essentially, the options are:

- **The new ACORD certificate of insurance must be issued in every instance**.

  Therefore, it is impossible to agree to "show 30 days' notice of cancellation" on a certificate of insurance.

- **You can agree to provide your client notice of cancellation; however, this commitment is not the responsibility of the insurer or your insurance broker/agent.**

  For example, you might agree to notify your client immediately if you receive any notice from any insurer that any of the required policies is being cancelled. This would be your 'contractual' commitment as opposed to reflecting a modification of the insurance policy.

THE NEW CERTIFICATE. The steps architects, engineers or construction managers should take now include:

1) Review your standard contract documents. This ensures that they reflect this revised approach and don't commit your firm or your subconsultants to provide a certificate with 30 days' notice of cancellation.

2) Educate your clients about this change and ask them to change their standard documents. It may even be appropriate for AIA, ACEC, CMAA, DBIA, etc. to get engaged and make this an industry issue.

3) Evaluate any new contracts you are considering entering into to see if their certificate/cancellation language presents problems.

4) Discuss this issue with your broker to be sure you fully understand what can and can't be done and how to change the certificate request/issuance process going forward, if need be.

Certificates of insurance are a common component of everyday business for architects, engineers, and other construction professionals.

By working with their insurance agents and brokers, architects, engineers, and other construction professionals can make the transition to the new certificates and fulfill their contractual obligations.

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

CAREER

Retirement plans affected by economy

Economic pressures are the main reason why some are either postponing retirement or being forced out.

By SUSANNAH SWEARINGEN
Correspondent

While some older workers may still be putting off retirement for now, economic recovery— however modest— could be making them more comfortable about retiring than they were this time last year.

According to a recent nationwide survey from *CareerBuilder*, 65% of workers age 60 and older said they are putting off retirement because they can't afford to retire financially. That figure is down from 72% who said the same last year.

More than 28% of those workers said they plan to retire within the next two years, while 27% are planning to retire in three to four years, and 18% in the next five to six years. Sixteen percent estimate it will be seven years or more before they can stop working, while 10% said they don't think they'll ever be able to retire.

Workers point to financial restraints as the main reason they are postponing retirement. The need for continued income was the reason reported by 65% of respondents, while 58% of respondents said the need for health insurance and other benefits were keeping them working longer.

Some older workers are also staying with their firms longer simply because they like working. Thirty-nine percent of respondents said they enjoy their job and 36% said they like where they work. Fourteen percent said they enjoy feeling needed and 26% said they worry about being bored in retirement.

THE INDUSTRY PICTURE. Wendy Matyjevich, human resources director at **X-nth** (Maitland, FL), part of Trow Global, a 4,000-person consulting and engineering firm, said she has not seen any evidence of workers feeling more comfortable with retirement.

Wendy Matyjevich, HR Director, X-nth.

"I feel that many people are being forced out of retirement due to the economy," she says.

In fact, Matyjevich says, many retired people are returning to the workforce as a result of increased costs in fuel and health insurance.

She agrees that money is the primary reason people are putting off retirement.

"The recession and stock market crash have affected everyone's retirement funds," she says. "Some people stay in the workforce because they enjoy it, but the number one reason is financial-based.

"With that said, not all employees are returning to the same type of job. If they were a project manager, they may not be a technical trainer or production staff member due to the stress level involved in their earlier career," she says.

MAKING ROOM FOR YOUNGER GENERATIONS. Gary Petri, a principal at **Slaterpaull Architects Inc.** (Denver, CO), a 44-person architecture and historical preservation firm, is experiencing a different kind of scenario, in which older workers are being encouraged to retire to make room for younger workers.

"Our firm is in the process of leadership transition," he says. "Two senior principals are being encouraged to step back."

Petri is one of those principals.

"I am not ready to retire and believe I bring value to the firm, especially in this transition," Petri says. "However, the younger principals don't see it quite this way. They're concerned about making room for the younger staff, even if they are not ready.

"Economics seems to be driving this modality, rather than an accurate assessment of the firm's needs. This economic downturn has jumbled priorities and clouded clear thinking, it seems."

Petri agrees with the assessment that some partners are putting off retirement due to the downturn.

"I know that's a factor in my case but I also think the current climate needs all the experience and wisdom that's available," he says.

Petri's experience is happening at several companies, research from the Employee Benefit Research Institute shows.

While survey respondents said they expect to postpone retirement, the survey indicated that various circumstances might force workers into retirement despite their plans.

More than 30% of those surveyed said changes at their company, such as downsizing or closure, were forcing them to retire earlier than expected.

"I am not ready to retire and believe I bring value to the firm, especially in this transition. However, the younger principals don't see it quite this way. They're concerned about making room for the younger staff, even if they are not ready. Economics seems to be driving this modality, rather than an accurate assessment of the firm's needs."

SEARCH SAVVY

Recruiting: Talent ‘acquisition’?

Acquisition *[ak-wuh-zish-uh n]*: def. “The act of gaining possession of a thing.” Hiring: *[hahyuh r -ing]*: def. “The act of engaging the services of a person.”

Jeremy Clarke

Words are powerful mediums that can have immense impact on our behavior personally, and in the way we conduct business. When we think of the word “acquisition,” for example, we think of gaining “possession of a thing” for purposes of growing our assets and widening cash flow. We think of a transaction intended to enhance shareholder value and improve the bottom line. “Acquisition” is good syntax in this context because it speaks to the transfer-of-possession of things; impersonal, static, material assets.

But there has been an alarming shift lately to introduce the syntax “acquisition” into the recruiting and hiring process. Many firms now have “Talent Acquisition Managers” who subsequently lead “Human Asset Teams” responsible for “gaining possession” of various skill-sets. Consequently, recruiting and hiring has become denigrated to the identification and transfer of assets. Now, this isn’t just an issue of semantics, because somewhere along the line there has been a parallel shift in the philosophy and execution of recruiting. Our processes reveal it, our titles reveal it, and our language reveals it. We’ve lost sight of the fact that selection and hiring is first an issue of people; of human beings and their families. The tragic result, largely, is that selection and hiring has ceased to be the meaningful act of “engaging the services of a *person*,” and has systematically evolved into the act of “gaining possession of a *thing*.”

Now, I’m not so saccharine in my views as to suggest that recruiting and hiring should not be viewed for the impact it can bring to a company’s financial standing. It should. In fact, employee compensation is largely proportionate to the revenue and profitability that skill-sets can generate. So I’m not implying at all that talent should not be viewed for its capacity to significantly affect the bottom line.

What I am suggesting is that a bottom-line focus should not allow us to mitigate the stewardship and dignity we apply to the selection and hiring process by relegating the process to that of an “acquisition” (even if only in our syntax). A focus on profitability does not excuse the extension of a de-humanized selection process that esteems candidates as mere assets to be acquired above their identity as rational personalities to be engaged.

The benefits? Listen, nothing will kill the reputation of a firm faster than embittered candidates; especially those firms who, due to size, are largely dependent upon a localized candidate pool. Because that’s true, one of the greatest investments a firm can make is the establishment of a concrete hiring process and corporate culture that exudes the conviction that people are never merely assets to be acquired and juiced. Rather, they are always, always human beings who potentiate a relevant ability to positively impact your business.

When companies begin to inject the right language and right philosophy into their hiring teams and selection practices, they will begin to see an immediate shift in the way candidates are related to, corresponded with, and treated throughout the hiring lifecycle. The benefits are immense and far-reaching.

Recruiting effectiveness and selection accuracy are improved, offer acceptances are increased, and retention is higher. There is simply nothing so critical to gaining and retaining the best talent available than to indoctrinating your candidates into a process that demonstrates professionalism, integrity, empathy, and a sincere sense of stewardship.

And there’s nothing quite so impactful to a firm’s reputation, in the local or national marketplace, as a selection process that is insatiable to establish distinction between “gaining possession of a thing” and “engaging the services of a person.”

JEREMY CLARKE is the director of executive search consulting with ZweigWhite. Reach him at *jclarke@zweigwhite.com*.

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RECEIVABLES

Get paid by talking to your clients

Firms can protect themselves from non-payment issues, but often keeping the lines of communication open is the best policy.

By JULIE KYLE
Editor

All the talk— IPD, BIM and cloud computing— won't mean a thing if you can't talk effectively to your clients. That, of course, includes the touchy subject of money.

Communication is key to maintaining a good financial relationship with clients, says Jill Tolotta, director of corporate credit with **Pennoni Associates Inc.** (Philadelphia, PA) a 990-person engineering and design consulting firm.

"Miscommunication can cost the firm a lot of money. Staying in regular contact with clients will assure there is no miscommunication in what our client needs and what we as a firm can provide them within their budget," Tolotta says. "Once you turn a client over to an attorney or collection agency, the chances of doing business with them again are highly unlikely."

Design firms are often placed in a precarious situation when disputes arise relating to fees or collection issues.

"More often than not, bringing action against a client for fee collection results in a counter claim by the client claiming contractual obligations were not met," says Kevin Esler, CPA with Fenner & Esler, a boutique insurance brokerage and risk management organization representing A/E/P and environmental consulting firms countrywide.

That's something that Julie Kaye, comptroller with **Ring & DuChateau Inc.** (Milwaukee, WI) a 90-person engineering consulting firm, would agree with.

"We've been advised by our professional liability carrier of high risks associated with making payment demands on clients and them turning around with errors and omissions claims or being harder to work with in quality situations," she says.

WHAT TO DO. "Investigating the client's financial capability and past payment practices is crucial," Esler says. "Additionally, having the contractual ability to suspend or terminate services for nonpayment is one method for improving collection. Retaining ownership of the instruments of service— at least until final payment is made— is another," Esler says.

Building communication and obtaining some type of commitment from the client (even for partials), and following up on time with the clients' commitments are useful, Kaye says. "Following up on their commitment says 'we'll work with you and we're interested in a long-term relationship with you.'"

Making sure everything is detailed up front— such as the contract, limit, inclusion or exclusion of expenses, correct billing information, purchase order and contract numbers— helps keep clients in-the-know about their end of the bargain, Kaye says.

Firms shouldn't be shy about asking for retainers either, says Ken Baldwin, financial manager for **Harper Houf Peterson Righellis Inc.** (Portland, OR) a 75-person civil and structural engineering firm.

"We've found that the potential clients who balk at being asked for a retainer are those more likely to be collection risks. HHPR's performance of repeat business helps minimize the level of bad debt we carry. These standing relationships with our clients also help the company to avoid falling victim to dishonesty, but it does not necessarily protect against business failure.

"This being said, there is no practical way of avoiding all collection issues, and we do utilize a collection agency on rare occasion as a last resort, and have been pleasantly surprised at some of the accounts we collected," Baldwin says.

USE ANESTHESIA. For firms with in-house collection personnel, Kaye says managers should keep it positive for the people making the collection calls, by encouraging them to send a thank-you card or a candy bar to the clients with whom they built relationships, or when the client makes a payment on time.

"Something that says, 'Thanks, I appreciate your follow through,' or, 'You've made my day.' It's a positive spin on the 'squeaky wheel gets paid first'," she says.

Client and project selection, getting signed authorization to proceed, and ultimately, knowing when to slow or stop work, can help to prevent a past-due account, says Carl von Hake, CFO at **JBA Consulting Engineers Inc.** (Las Vegas, NV), a 150-person engineering consulting firm.

"If your gut tells you something is wrong, it probably is. You have to allow your reasoning to outweigh the compulsion to keep working. This takes conviction and is very hard to do for most engineers and architects," he says.

Successful firms do this well, von Hake says, and can still remain a valuable partner to their client.

FINANCE INSIDER

Accounting methods may mask performance

Cash and accrual methods each have their pluses and minuses.

Editor's note: This is the second of a two-part series. In her first article (*The Zweig Letter*, Feb. 21, issue 899) Tracey Jeffers wrote about how successful banking relationships require having a good understanding of financial statements.

Business owners who are using an income statement to track financial performance may be misleading themselves when it comes to actual cash available. More than once I have heard from business owners bewildered by the fact that their income statement says they are making a profit but they never have any cash in the bank. It may be due to the accounting election chosen.

With accrual-based accounting, the income is recorded upon the generation of an invoice to a client as an indication that the revenue has been earned, even though the payment may not be received for several weeks to months. The same is said for expenses. If you enter a bill into your accounting system that is due mid-month, accrual based accounting records the expense at that time, even though you may not pay the bill until the first of the following month.

Cash basis accounting does not record the revenue until the check or cash is actually received by the business and expenses are not recorded until checks have been cut to pay the bills. Cash in, cash out. Pretty simple, right? Maybe. Cash basis accounting provides an owner much less of a full-blown financial picture than accrual based accounting. If you are showing a profit on your cash basis income statement, that may be because you have a

Tracey Jeffers

pile of bills to be paid and haven't paid them yet. A pile of bills netted against that income statement may result in a much different financial picture, so be careful.

Lastly, it is easy to get confused about what shows up on the various financial statements. So, here is a brief list of some items that are all related and appear on the various statements. Just remember that each statement has its own purpose and they should be read in total to have a good understanding of firm performance.

- **Loans.** Balances of loans will show up on your balance sheet and each time you make a payment, the principal portion is reduced by that amount. The principal portion of a loan payment will not show up on your income statement, but the interest portion is deductible and will be reported on the income statement. The cash flow statement will show both the principal and interest payments together.

- **Assets.** If you purchase a new asset for your firm and it is going to be depreciated over time, the cost of the asset will not appear on the income statement at the time of purchase. The cost of the asset will be recorded on the income statement in increments known as depreciation. The new asset will appear on the balance sheet at its cost and any depreciation is recorded against the original cost. Any cash that you might have expended to purchase a new asset will appear on your cash flow statement.

- **Depreciation.** Depreciation is a non-cash expense that is deductible for tax purposes. It will show up on your income statement and reduce taxable net income. It also shows up on the balance sheet, reducing the value of company assets on an incremental basis using life expectancy of the asset. So, remember that the net income on your income statement does include depreciation. If you have a sizeable amount of depreciation, it can have a big impact on the bottom line.

Having financial statements to provide to your lender at their request is important to fostering a good banking relationship. Likely one of the most important things to remember about your statements is that good, clean statements make lending decisions go much smoother. Jumbled, messy statements are more difficult to read and analyze. Your financial statements are not only the measure of your firm's performance; the appearance of those statements is a representation of your firm. If you are trying to forge a new banking relationship, in particular, be sure your financial house is in order in all aspects before the first meeting occurs.

TRACEY JEFFERS, MBA, CBA, CMEA, is a principal in ZweigWhite's Financial Advisory Services Group, where she oversees valuation services. Contact her at *tjeffers@zweigwhite.com*.

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