

## **Management and Professional Studies**

### **'The Business of Architecture'**



## **Introduction**

This report is a focused analysis into the Business of Architecture. The responsibilities of Architects in the construction industry are under constant review and there is a great potential for change.

Change is a process that Architects are only recently appreciating after the abolishment of the RIBA standard fee scales. The abolishment of the standard fee scales occurred nearly two decades ago. It is a testament to the complacent business practices of previous years that it took nearly a decade for a positive response and realisation of the current market.

I believe that this change was occurring so slowly due, in part, to the attitude that Architects held towards making money and the stock market crash in the late eighties which caused a massive recession. As a profession we constantly prefer to concentrate our efforts on the Architecture over the business of Architecture. As this report will undoubtedly show the business of architecture is as important to the delivery of quality architecture as the architecture itself.

## **The Organisation of an Architectural Practice**

Architectural practices can be classified by three definitions; small, medium and large practices. The ownership and liability for these practices are varied for each classification.

There are three main structures to divide the liability and ownership of architectural practices. These are:

- Single Ownership
- Partnership
- Limited Liability Partnership
- Limited Liability Company

The first two, listed above, are similar in many respects. The single ownership covers practices which are singularly owned. This person takes direct and personal responsibility and professional liability for all work done in their name. This structure of ownership is reasonable for small practices where the workload is comprised of smaller value projects. As the value of projects rises it is necessary to increase the number of staff. It becomes sensible to spread the financial liability across several people.

At this stage architectural practices invite other like minded individuals to bring additional skills into a Partnership. A Partnership divides the ownership, responsibility and liability for a practice among two or more individuals. As the value of projects increases further it is reasonable for the owners to totally eliminate their personal liability.

Today architectural practices can form Limited Liability Partnerships and Companies which eliminates the personal liability of the directors. In the era of the RIBA fee scales Architects were prevented from creating Limited Liability Companies because the professional body wanted owners to feel financially responsible for their work.

Architects can now be responsible for a large number of offices, hundreds of staff and projects with values equalling hundreds of millions of pounds. This highlights a strong argument for the formation of Limited Liability Companies. The huge sizes of practice's are also in response to the competitive rules instigated by government and the creation of new partnering procurement methods such as Private Finance Initiative.

### **The Issues Facing Architectural Practice**

The overriding issue facing any architectural practices in the 21<sup>st</sup> century is finance. Despite varying sizes each practice has to instigate budget management systems which are similar in many respects.

The creation of partnering agreements, design and build contracts and design, build, finance and operate contracts are also important issues. These were developed in the early nineties to reduce cost and construction time scales for new buildings. The inherent problem with newer partnering and Private Finance Initiative (PFI) procurement methods is the requirement for architectural practices to absorb financial risks and stringent information deadlines. This problem requires larger practices with stable finances to meet the investment required.

Part of the ideology of cost savings through methods of partnering and PFI Architects are required to understand the importance of value engineering. Value engineering is an issue which Architects approach with a begrudging resentment. The idea of removing the 'exciting' sections of schemes to satisfy a Quantity Surveyor is considered galling. However, value engineering is an important part of cost saving exercises and Architects need to approach value engineering from a design perspective. Architects should appreciate that the desired effect can be achieved in a more cost effective manner.

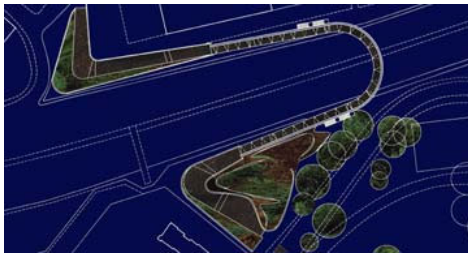
#### Small Architectural Practice

This section is based on ARCA. ARCA is a small and relatively new architectural practice in the sole ownership of John Lee. ARCA is a design oriented practice which has grown to include a portfolio of projects valued in excess of £120 million. Owner John Lee relies on his architecture and design competitions to differentiate his practice and attract new clients.

The issues facing small practice can be summarised in the following three headings.

- Cash Flow
- Marketing

- o Time Management



As with all businesses ARCA needs to be profitable so that the practice can grow, reinvest in staff, infrastructure, and further development whilst continuing providing quality design. To achieve profitability each project must be planned meticulously and in such a way that John is aware of the financial stability, or instability, of his firm.

As ARCA is a new practice the cash flow is a particularly sensitive issue. This is because they operate only a small number of live projects in tandem. If, for example, there are three live projects within the office and two are concluded before completion the practice will not receive its full fee which has a devastating effect on the practice's cash flow.

This issue was highlighted several times in John Lee's lecture. He illustrated his optimism every month on a scale of one to ten. The first time his practice suffered a serious cash flow problem his optimism was at an all time low with a rating of one. On the second time he rated his optimism at three. On the third time John was rather unconcerned with an optimism rating of four.

Each time the practice suffered a cash flow crisis John had noted that the practice was intently focused on meeting current deadlines. This resulted in them neglecting to market the practice effectively. This resulted in live jobs being completed with no new work ready to start. This is a serious issue which is a direct result from too few staff available to complete the current workload whilst continuing to promote, market and bid for new commissions.

This issue could have been avoided by rigorously planning each project by allocating required person days to the fee charged. This method would then have highlighted the staffing issue earlier and action could have been taken sooner thus avoiding the problem.

The time management issue is interrelated to the former points of cash flow and marketing. Time management is essential for a small practice. Poor time management can be caused by several conditions. These conditions are inexperienced clients, unknown project costs in relation to the fee and the small value of projects. All these points are interlinked, for example, a house extension is a small value commission, however, the client is also inexperienced thus the architect is required to spend a proportion of their time reassuring the client and explaining the required stages and options. This leads to unrelated hours being spent on a project thus causing the project costs increase and the profit decrease.

### The Medium Practice

This section is based on two practices, Stephenson Bell Associates and Hodder Associates. Stephenson Bell is organised as a Partnership. Hodder Associates is organised in Single Ownership. These two practices are design oriented and believe their architecture can differentiate them from other similar practices.

The issues facing medium practices can be summarised in these headings:

- o Cash Flow
- o Time Management
- o Design Integrity



As with the small practice a medium practice suffers from a cash flow issues. Within the design oriented practice the financial management is given a much lower priority than design. I suspect this is because when the practice employed fewer people and commissions were of lower value stringent controls to monitor and control the financial stability of the practice were not required.

At this stage of development the partners have realised that the cash flow and time management is closely linked and in some respects interdependent. It is at this point that the owners invested in systems and specialist consultations to achieve a rigorous time and project management system.

It is interesting to note that Hodder Associates employed an external business consultant to create and manage the financial structure of the practice. With this system in place it allows Steven Hodder to continue working on the architecture which is more interesting to him. The approach was in a direct response to opening a London Office. On the back of their Stirling Prize win Hodder Associates decided that a London Office was required. This office eventually closed due to the lack of financial and project management.



Design Integrity at this stage is vital as it is too easy for the Owner or Partners to become too fixated on making the practice financially secure. This is understandable as the Partners can lose all their assets if the practice fails financially. In my own experience of architectural practice this happens to frequently and the Partners neglect the marketing potential of their work.

### The Large Practice

This section is based on Building Design Partnership which is the largest single Limited Liability Architectural practice within the UK. BDP was one of the first Architectural practices to bring together construction professionals under one company to provide a multi disciplinary service to clients.

BDP splits the management and the architecture into two distinct categories. The company has large resources to support this type of management structure and BDP uses its staff in a unique manner. The practice utilises managers to manage and designers to design. This enables the practice to regulate both the financial stability and the design integrity in tandem. A design team comprising of managers, Architects and other construction Professionals is allocated to each project.

The issues facing larger practices can be categorised in these headings:

- Cash Flow
- Time Management
- Design Integrity
- Efficiency



In the large practice short term cash flow is not an all consuming issue compared with small and medium sized practices. The large practice will have a long history of financial stability as well as the backing from a major banking institution. That said cash flow is still the most important issue of the large practice because without managed cash flow the practice can not sustain its large overheads, investment or staff training programmes.

Time management in a large practice has evolved to an advanced stage and strictly controls each project to achieve the desired level of profitability. This level of control has enabled BDP to become the largest practice in the UK and it helps a continuous development with the aim to improve profitability.

The design integrity of each project is a very important factor. The practice understands that they need to maintain the quality of design as it is the most effective marketing tool. The buildings designed will be part of the built environment for a long period and will continue to market the practice with minimal additional investment.

BDP has grown into such a large organisation that one of the issues is to minimise and improve the administration system. Keeping strict controls on administration costs maintains a high level of efficiency and manages overheads. The overall business plan must constantly re-evaluate the costs of administration to remain competitive with other Architectural practices.

## **Job Management**

This section is a brief overview of how individual and groups of projects are managed in a successful business.

To achieve a profitable architectural practice you need to be aware of three variables:

- Overheads, including service, building and administration costs
- Staff wages
- Allocated Profit

With the above an hourly rate for each member of staff can be calculated. Each project can be assessed in term of number of staff required and total time required to complete. This time analysis and hourly rate can then be used to calculate the required total fee for each project. This total fee can then be sub divided into the RIBA work stages to complete a cash flow projection.

Each project is then constantly monitored during each RIBA work stage and compared with the cash flow projection. This comparison identifies unprofitable jobs quickly so a plan of action can be conceived.

### **Summary**

In summary the financial stability of a practice is a main requirement for the long term production of quality architecture. The architectural practices which maintain a good cash flow system throughout the year can plan their projects in a precise manner to meet the correct staffing levels.

Jack Pringle, President elect of the RIBA, has highlighted the following issues which he believes are important to the profession:

- The Architects Registration Board has sweeping open ended legal powers to regulate the profession. These powers neither consult nor acknowledge the profession's needs and this requires urgent attention.
- PFI procurement is overly expensive. Hundreds of millions of pounds are wasted each year on the bidding process involved in PFI. These costs are burdening the profitability of all practices. This forces amalgamation into larger practices and restricts the growth of the smaller practices.
- PFI procurement separates the Architect from the client thus impairing our professional responsibilities.
- Student debt and related starting salaries for part three students are disproportionate and starting salaries need to rise to meet the student debt repayments.

All of these issues combine to create a serious problem for the profession which require innovative and comprehensive changes from current and future Architects.

