HOW ENDURING SOUTH AFRICAN ARCHITECTS’ FIRMS got there

A study on enduring South African architects’ firms investigated the actions, practices and orientations that helped them get there.

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ABSTRACT
This article reports on a qualitative study into the actions, practices and attitudes that allowed a sample of South African architects’ firms to be regarded as enduring1. Architects considering starting their own firms, or those who have started their own firms in the recent and not-so-recent past, can benefit from the experience of the 26 enduring architects’ firms studied. In the words of David Littlefield:2

Too many architects make too bad a living, a problem that is largely the result of believing that quality design will inevitably lead to decent clients and a fair income. The truth is that the business dimension of an architectural practice is no less important than producing the drawings.

After a literature review, the study followed a qualitative methodology comprising semi-structured interviews with the founder or most senior partner of the firms identified with the assistance of the South African Institute of Architects (SAIA). The sample was drawn from architects’ firms in the four major metropolitan areas of South Africa as well as two firms from rural areas. Reference will be made to a parallel quantitative study that canvased all architects and candidate architects registered with the South African Council for the Architectural Profession (SACAP).

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INTRODUCTION

The purpose of this article is to help architects benefit from the collective experience of the 26 enduring architects’ firms interviewed. It is hoped that the entrepreneurial attitude of new start-ups will be enhanced to help them prosper in the changing economic climate. While entrepreneurship features prominently in developmental conversations worldwide, local research has found that ‘architects who continue with the traditional methods of practice struggle to make it in such a challenging market’. Consider that, ‘The traditional role and service of the architect is rapidly changing and practitioners need to keep pace with the changes in social and economic patterns in order to remain relevant’. Odile Decq, the well-known French architect, believes ‘we have to train students to become architectural entrepreneurs’. Architects are realising that a successful practice depends as much on the design of their business model as on the design associated with their buildings. In the American Institute of Architects’ (AIA) *The architect’s handbook of professional practice*, the call for a more entrepreneurial approach is sounded. The AIA believe that ‘twenty-first-century practice requires architects to adopt an entrepreneurial approach dependent on risk-tolerance, self-awareness and comfort with unpredictability’.

The need for a change in attitude is highlighted by findings of the parallel quantitative survey to which 486 SACAP-registered professional architects and candidate architects, approximately 50% of whom were partners or directors in an architects’ firm, responded. Many of the firms who responded (43,6%) were older than 15 years, but it isn’t clear how many of them would qualify as enduring firms or if any of them took part in the qualitative study.

One of the two questionnaires revealed:

- 58,57% believe their firm’s current profit margin is too low.
- 40,6% believe their firm currently compensates its owners at an acceptable level, with 29,24% believing it doesn’t.
- 50,58% believe their firms struggle to meet financial obligations.
- 52,2% believe their firm hasn’t built up substantial financial reserves, putting long-term stability into question.
- 25,76% don’t believe their firm’s financial liquidity is better than competitors – hence that the situation is fairly widespread across the profession.

This reflects a concerning financial situation. The second questionnaire, completed by all respondents, investigated topics extracted from current theory and generic entrepreneurial-education programmes as well as conversations amongst architects. The questionnaire asked:

- Does the education, training and/or support offered to you during your studies, during your candidacy period or since registration as a professional architect include these topics?
- Do you believe that the topic is relevant and should be included in architectural education and training?

The mean percentage adequate or extensive responses received to each of the 11 topics in the survey are illustrated in Figure 1; the mean percentage adequate or extensive responses to each of the 11 topics, in Figure 2. Figure 1 indicates that the vast majority of respondents believe that the topics aren’t covered adequately by current education and training programmes. These topics are, however, considered highly relevant (Figure 2). While the shortcomings identified might not be the only cause of the disappointing state of the finances of architectural firms uncovered by the first questionnaire, it’s possible that there’s some link. Regardless, it is important that the entrepreneurial actions, practices and orientations employed by enduring South African architects’ firms be shared as a first step to address the shortcomings highlighted by Figures 1 and 2.
The majority of architects’ firms are small. The number of people employed is the commonly used differentiator of small businesses. However, other measures – sales revenue, asset value, owners’ equity etc. – can be used. A further distinguishing factor is that small businesses are commonly managed in a personalised way, often without a formalised management structure.

Wickham distinguishes small businesses from entrepreneurial ventures by regarding small businesses as less innovative, normally providing an established product or service but with limited newness. He sees size as a possible criterion but advises that this must be applied within the industry context. He also holds that small businesses have limited growth potential because they operate within an established industry and often are unique only in terms of their location.

Information obtained from SAIA indicates that approximately only 2% of architects’ firms registered with them comprise more than 20 persons. Therefore, almost all South African architects’ firms are small businesses.

According to Hatten, management is ‘the process of planning, organising, leading and controlling resources in order to achieve the goals of an organisation’. The management of small businesses covers the functional areas of financial, operations, human resources, marketing, strategic and risk management. Furthermore, managing small business has unique challenges because their constraints and objectives are quite different from those of large organisations. Small businesses often are markedly shaped by the personalities involved and by personal relationships. They sometimes deal with risk and uncertainty in unusual ways. They are typically underfunded and mostly cannot acquire capital. Due to this, their focus could be on quick returns as part of a short-term outlook.

The following are other features that distinguish small-business management:

- They can be unprofessional.
- Their founders sometimes are more action focused and less analytical.
- Financial and human resource constraints are major concerns.
- Growth can lead to managerial and structural challenges.
- The entrepreneur becomes a manager, which requires different skills.

Burns holds that their limited access to funding constrains their potential for growth, limiting it to a single geographic area and/or a restricted scope of services, which could be difficult to diversify. Small businesses often are also constrained by poor management caused by low levels of managerial education. This leads to shortcomings in planning and organising, and an inability to deal with legislative requirements.

Relatively minor issues often constitute substantial strategic decisions, and uncertainty and unpredictability often result in inferior business decisions. The high failure rate of small businesses reflects these special challenges faced by their business managers.

Managing an architects’ firm is not a simple matter. Owners need customised support and training.

RESEARCH METHODOLOGY
The study consisted of a literature review and an empirical study. The literature review aimed at providing a knowledge base on entrepreneurship and small-business management. It included literature on entrepreneurship in architecture because ‘a thorough, sophisticated literature review is the foundation and inspiration for substantial, useful research’. Literature reviews constitute an imperative step in qualitative, quantitative and mixed-methods research.

Questionnaires for the empirical process were compiled using the findings of the literature review. This research consisted of one qualitative process using semi-structured interviews and two quantitative self-administered questionnaires (not discussed here). According to Creswell and Plano-Clark, a mixed-methods approach is suited to problems where a single method is insufficient and a second method is required to enhance the findings of the primary method.

The founders or most senior principals of the participating firms were interviewed because they were seen as most familiar with the history and management history of their firms. The sample, based on the criteria stated in endnote 1, was selected with help from SAIA to include firms of all sizes in the four biggest regions of SAIA; to include urban and rural firms that qualify as enduring firms; and not to reflect any personal bias.

Enduring architects’ firms in the four biggest chapters of SAIA (Gauteng, Pretoria, Western Cape and KwaZulu-Natal) were used. Firms were divided into small (one to three persons), medium (four to 10 persons) and large (11 and more persons). This resulted in a total of 26 interviews.

FINDINGS
The qualitative study identified the following actions, practices and orientations as those that enabled certain South African architects’ firms to be enduring:

A. ENTREPRENEURIAL ORIENTATION
Miller is an early researcher who engaged with this construct. This study used this definition of entrepreneurial orientation: ‘the strategic posture or attitude and actions used by organisations or individual entrepreneurs to enact their firm’s organisational purpose, sustain its vision and create competitive advantage in the creation and nurturing of a new venture’. The study found that:

- The entrepreneurial orientation of most of the founders of firms appears to have been low.
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• Close to 75% of respondents are not high risk-takers, suggesting architectural entrepreneurs don’t have to be.
• Irrespective of their entrepreneurial orientation, well-managed architects’ firms can continue for 15 years or more. Nevertheless, a high level of entrepreneurial orientation could be advantageous for the firm to continue for more than 15 years, particularly if aims include growth.
• The personality traits ascribed to entrepreneurs are found in many of the founders, irrespective of firm size.
• Firms are started successfully for ‘push’ (the best or only way out of a desperate economic situation) or ‘pull’ (the perceived attraction and advantage of independent practice) reasons, yet most enduring architects’ firms were established for ‘pull’-type reasons.
• Opportunities for new firms can be identified by developing networks, being watchful and entrepreneurial, by trailing your passions or by building on past experience (specialisation).
• Opportunities exist for architects who have an entrepreneurial disposition. This suggests that many architects can easily adopt a more entrepreneurial attitude, which could yield financial or other benefits.

B. CREATIVITY
Creativity constitutes a critical aspect of entrepreneurship. Antonites believes innovation is the third stage in creative problem-solving (discovery – invention – innovation – patent). Couger says ‘innovation is concerned with implementation of inventive ideas’. Burns sees innovation as the primary tool entrepreneurs use to create or exploit a business opportunity. To him, it’s connected ‘with the development of a new or better product or process’. Responses received indicate that:
• Creativity is employed by architects’ firms to spawn work; it performs an important role in the operations of the firm and business strategy, and is used to sell design proposals.
• Creativity is fundamental to the workings of enduring architectural firms.
• There’s a link between a firm’s creativity and establishing a competitive advantage.

C. INNOVATION
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• Innovation is integral to the entrepreneurship in enduring architects’ firms.
• A substantial number of firms are innovative in how they run their business.
• Innovation can be introduced to the way firms are run, the product or service they perform and the manner in which they interact with stakeholders.

D. ORGANISATIONAL LEARNING
Organisational learning is ‘an organisation-wide continuous process that enhances its collective ability to accept, make sense of, and respond to internal and external change. Organisational learning is more than the sum of the information held by employees. It requires systematic integration and collective interpretation of new knowledge that leads to collective action and involves risk-taking as experimentation’. The following findings were made:
• 92% of firms accepted the need for, and significance of, specialised organisational learning.
• Experiential learning is constructive but cannot be adequate in current practice.
• Most enduring architects’ firms believe it’s important to use the latest software.
Innovation and organisational learning are commonly found in architectural practice.

E. FIRM VALUES
These refer to ‘the operating philosophies or principles that guide an organisation’s internal conduct as well as its relationship with its customers, partners and shareholders’. Here, the findings were disappointing. Few firms possessed a clearly articulated values declaration, which fulfils an immensely important role in the firm’s communication to clients, potential clients and staff.

THE UNINSPIRED AIMS CITED BY MANY RESPONDENTS CONFIRM THE WEAK ENTREPRENEURIAL ORIENTATION FOUND

Most respondents regard themselves as ‘practice-centred businesses’, not ‘business-centred practices’. This might indicate that ‘practice-centred businesses’ have a greater likelihood of becoming enduring. The uninspired aims cited by many respondents confirm the weak entrepreneurial orientation found.

F. COMPETITIVE POSITIONING
The study found that:
• Approximately 50% of respondents undertook strategic or business planning at the outset.
• Hardly any of the firms have articulated mission and vision statements.
• Many responding firms consider themselves strong on ideas, delivery and experience (all three, indicating a lack of focus). Some firms believe they’re strong experience firms and two smaller groupings see themselves as strong ideas and strong delivery-type firms. This implies many firms remained in the ‘anything that comes through the door’ category, which Klein and Morgan warn against due to its lack of differentiation and/or specialisation and concomitant vulnerability.
• 20% of firms surveyed compete on cost; 40% compete on the basis of a differentiated offering but 40% have no specific competitive base.
As many as 60% established a competitive strategy of some sort.
As many as 80% have established a speciality. This implies that it’s preferable for firms to establish a single building type or multi-building type speciality.
There could be a link between the founders’ network and the firm’s endurance.
Responding firms have established a competitive advantage built on specific skills, experience and knowledge, marketing, delivery, use of technology, or connections.
Firms can establish a competitive advantage through offering superior service and completing projects quicker, more efficiently and cost-effectively; and/or by specialising in specific project types.
Most of the firms do strategic planning on a regular basis, formally or informally. Nevertheless, a number of the firms do no strategic planning whatsoever. Low levels of competitive positioning and competitive attitudes prevail amongst some (but not all) enduring architects’ firms. Firms were established, and survive, without any business strategy or vision, mission or business plan in place. Some survive minus a competitive advantage or devoid of specialities. As such, findings again verify low levels of entrepreneurial orientation.

G. BUSINESS MANAGEMENT (BM) STYLE AND POLICIES
BM is ‘the system of processes and tools – the circulatory system for the practice – that keeps the office and projects running smoothly together’.42
The study found that:
Most respondents believe South African architects’ firms pose an exceptional managerial challenge.
The biggest problems pinpointed fall into two groups – those relating to business, and those relating to human relationships.
• The respondents believe the situation is caused by the difficulty of the architect’s role, the dispositions of individuals involved and inadequate skills levels in the building industry, coupled with the kind of service expected within the prevailing context.
• Black Economic Empowerment legislation, due to the shortage of architects from previously disadvantaged backgrounds and the implications thereof for procuring government work, is seen as the biggest unique problem.
• The respondents have reacted to the aforementioned challenges in a variety of ways: some adapted the way they operate or their structure; others changed the way they select and appoint staff, and/or through staff development.
• The respondents believe that managing a small firm has some benefits because managing big firms can be more testing. Managing a small firm is regarded as procedurally simpler.
• However, large firms have distinct advantages, for instance an enhanced capability to deal with fluctuating workloads and other pressures, the opportunity for partners to acquire specialist skills and an increased number of opinions regarding problems.
• Bigger firms have a stature that could at times be an advantage.
Enduring firms follow a wide range of management styles with the ‘participative’ style preferred. So-called ‘consultative’ and ‘autocratic’ styles are followed by two smaller but significant sections of firms, while an even smaller section follows the ‘laissez-faire’ style.
• That a significant number apply the ‘autocratic’ style implies some firms should reappraise their situation in the present-day economy. It appears that staff relations form a widespread problem. The use of an ‘autocratic’ management style, coupled with the absence of policies concerning a range of managerial aspects, including human resources, could exacerbate the situation.

H. FINANCIAL MANAGEMENT (FM)
Architects strive to create great buildings but have to accept that their firms are businesses – there are certain financial imperatives.43 FM comprises the continual monitoring of the firm’s financial situation in order to institute timely actions in response to pending developments and meet financial targets.44
The responses showed that:
88% of respondents use financial administrators – either internal non-specialists, internal specialists, external specialists or internal and external persons working in combination.
As many as 44% of responding firms don’t use budgets – the simplest form of financial management!
Firms that use budgets employ a range of budgeting models.
Budget monitoring, if it happens, occurs at intervals ranging between weekly and annually.
Annual and even bi-annual budget monitoring constitutes a disregard for the importance of FM.
The majority (69%) have monthly financial statements drawn up.
82% use ratio analysis to evaluate their profitability, liquidity, etc.45
Between 54% and possibly 100% employ external auditors.46
Most respondents (71%) keenly manage their cash-flow situation.
Only 54% of firms invoice monthly. When considering the direct link between invoicing and cash flow, this is concerning.
As many as 56% of respondents have suffered or are worried about non-payment. The remaining 44% of respondents don’t consider this to be a major problem. >
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I. OPERATIONS MANAGEMENT
The study found that:
• Target dates are used by 75% of respondents to manage and meet deadlines.
• The disregard of punctuality could be detrimental for firms to achieve ‘enduring’ status.
• Outsourcing has become common practice.

J. RISK MANAGEMENT
The study established that:
• Two-thirds of responding firms use, directly or indirectly, standard service-provider agreements. Those who don’t could be taking substantial risks.
• Respondents using standard agreements negotiate adjustments to reduce the Professional Indemnity Insurance required, the quantum of liability claims and the period of liability.

K. MARKETING MANAGEMENT
Marketing was understood as ‘the messages and/or actions that cause messages and/or actions; the messages and actions that result in commissions.’ The study determined that:
• In half, the principal(s) fulfil the marketing function. In the other half, the function is shared by members of staff (25%) or no one in particular.
• In the case of two of the last group of firms, marketing specialists are employed.
• Firms use a range of strategies and marketing methods to secure work: networking (40%), websites and social media (30%), publication (25%), and winning competitions and awards (15%).
• Advertisements, participation in social organisations and socialising, specifically as part of marketing, were each listed by 10% of respondents. Only 5% listed ‘cold-calls’.
• Exceptional client service and value (aimed at recommendation/return clients), establishing relationships, creating a general (public) profile and seeking recommendations from past clients, or others within their professional networks, are commonly used to secure future appointments.
• Actions aimed at creating repeat clients or referrals are seen by 94% of respondents as the best way to secure future appointments.
• These actions comprise offering levels of service that exceed expectations and by cultivating relationships.
• Showcasing the firm to potential clients appears to have a small chance of securing future appointments.

L. CLIENT BASES AND RELATIONSHIPS
It was found that:
• 70% of respondents are employed by private-sector clients, mostly by repeat clients.
• The retail, education and luxury residential sectors were the major sources of work.
• 35% of respondents indicated that they get all, most or some of their appointments from government entities.

M. FEE DETERMINATION AND POLICY
• 77% said that the guideline fee scale published by SACAP forms the basis of their fee proposals.
• The guideline fee scale is strictly adhered to by 31% of respondents.
When the firms are pressured to discount, they propose a fee based on one or more of the following:
• By doing a rough assessment of what their costs will be before negotiating the best possible fee.
• Calculating what their costs will be and then negotiating the smallest discount possible.
• They refuse to negotiate and insist on using the guideline fee scale
• They link the reduction in fees to a reduction in the scope of work.
• They propose a fee based on an estimation of what their costs will be, either by using a fee calculator or based on the cost of past projects.
• One firm indicated that they convert the percentage-based fee recommended by the fee scale into a fixed fee against a fixed project scope.
• Two respondents use the guideline fee scale, after which they pragmatically negotiate discounts linked to early payment or a reduction in liability.
While some of these strategies might have practical advantages, they could jeopardise the firm’s
sustainability. The remaining respondents use a more sustainable system by basing their fee on the value they offer, the estimated cost of doing the project and the scope of the appointment.

• Slightly more than half (53%) ‘work at risk’ but only under specific conditions.
• Having an appropriate fee policy was critical to the continued existence of a firm.
• More than half (54%) tender for projects.
• The SACAP-guideline fee scale is used to prepare competitive fee offers.

• Only two-thirds of respondents know what their operating costs are.

Finally, the study also probed the founders of the firms for advice to young architects considering starting a new firm. They believe start-up architects should:

• Undergo entrepreneurship and business-management training.
• Gain experience in another firm and/or enlist the help of a mentor.

CONCLUSION

Many enduring architects’ firms have adopted the actions, practices and orientations outlined above, which have allowed them to survive and prosper for more than 15 years. While not all firms adopted all of the above, and entrepreneurial orientation was low, the factors outlined above have been identified as commonalities that characterise the way in which many firms reached this status.

However, the neoliberal economic system, the literature review and the responses outlined indicate that the profession needs to adapt to a context that encourages competitive and entrepreneurial behaviour.

The good news is that many of the traits required can already be found in architects’ firms.

Architects who own firms or are thinking about starting one can take note of these points. However, change is constant; hence the pointers provided should be considered within this context and be adopted where required and as indicated.