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The strategic management of architectural practice*

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The paper develops a model for the strategic management of architectural practice with the aim of better understanding how practices compete with each other for work around a tripartite definition of quality. It assesses the ways in which architectural practices are distinctive as knowledge-based organizations, before assessing some of the characteristics of their industrial context. Drawing on the work of Maister and Porter, it then develops a model of generic strategies for architectural practice which, it is suggested, can form the basis for further research and consultancy. Finally, some comments are made suggesting why architectural practices are relucant to think in strategic terms.

Keywords: Strategic management, architectural quality, knowledge-based organizations, practice management, distinctive competence.

Introduction

Traditionally, management within architectural practice has been conceived as the administration of contracts and offices, rather than the management of projects and practices. Arguably, the emphasis on operational issues follows from the context of a construction industry characterized by the enduring threat of litigation, while the protection of the fee scales meant that there was little need to think competitively. The impact of fee bidding was mitigated by the construction boom, but now that the market context has changed, the issues are more starkly posed. In short, survival and the search for a distinctive competence have become the key issues facing architectural practice at the start of the nineties, yet there is little research in this area that can help managing partners and directors develop effective strategies.

The purpose of this paper is, therefore, fourfold:

1. to identify what is distinctive about architectural practices as organizations;
2. to explore some of the strategic issues presently facing architectural practices;
3. to examine the existing frameworks for analysing such issues, and to propose a new one which identifies the generic strategies available to practices; and
4. to suggest reasons why strategic management does not come easily to the profession.

The paper draws on case studies of nine architectural practices conducted by Graham Winch which were supported by the Joint Committee of the Science and Engineering Research Council and the Economic and Social Research Council, and Eric Schneider's experience as a management consultant to architectural and design practices, and to the Royal Institute of British Architects' *Strategic Study of the Profession.*

Architectural practices as knowledge based organizations

Several factors distinguish architectural practices from other types of business organization in that they are service organizations, professional organizations, and creative organizations:

Service organizations

Although architects provide plans which eventually result in a building, what they offer is primarily a

* An earlier version of this paper was presented to a Reading Construction Management Seminar in April 1992. We benefited significantly from the ensuing discussion, particularly Ranko Bon's comments on Figure 2.

service, the quality of which is judged by clients on the basis of the overall experience, rather than the end product alone. What makes such service business special is:

1. the service is *intangible* – what is purchased is a capacity to produce, rather than a product;
2. it is *heterogeneous* in that performance varies from client to client because it is provided by different staff working with different clients and changing over time;
3. production and consumption are *inseparable* – the service cannot be stored (Parasuraman *et al.* 1985).

The result of these characteristics is that the assets of an architectural practice are its people, and their reputation for providing the service promised. This creates significant problems of 'balancing' the relationship between the skills of the people employed, and the service offered (Maister, 1982). It also means that the client interacts continually with the architects during the provision of the service – the market transaction with the client is *relational*, rather than junctural.

Professional organizations

Like many other organizations within the construction industry, the labour market upon which architectural practices draw is regulated by a professional institution – the Royal Institute of British Architects – which supervises the education of potential architects. This, essentially, is a process of the standardization of skills through professional formation, which means that when clients purchase the intangible service, they also know to what standards and procedures the service will be supplied. Failure to meet these standards and procedures opens the professional to charges of negligence. In this sense, the essence of professional practice can be considered to be the provision of *standardized intangibility* (Larson, 1977). A further implication of professional regulation is that there are both high entry barriers to the profession and high exit barriers from the profession for individuals due to the specificity of the skills deployed.

The dominance of professionalism means that architects are frequently torn between satisfying their clients, and satisfying their professional peers in what Blau (1984, chap 1) has called the 'Daedalean risk' facing architectural practice.* The problem revolves around competing notions of 'quality' in architectural practice.†

Quality can mean three interrelated but distinct things, which are illustrated in Figure 1:

1. It can be defined in terms of the level of *specification* on the project – the quality of finishes, the design life, and fitness for purpose;
2. It can be defined in terms of the quality of service delivery in terms of programme, budgetary control, and conformance to specification – the quality of *realization* of project objectives;*
3. it can describe the quality of *conception* aesthetic terms – elegance of form, spatial articulation, or contribution to the urban culture.

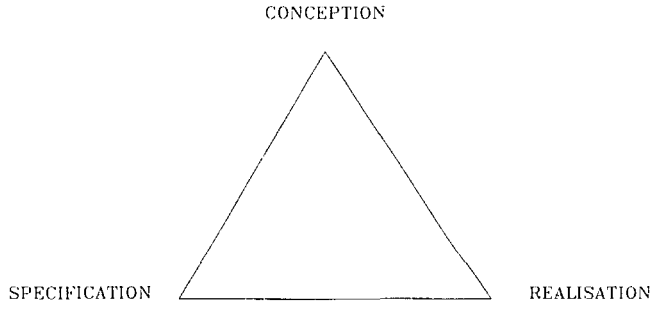

Figure 1

These definitions of quality differ not only in what they describe, but also who is to assess their level of achievement. The quality of specification is specific to each particular project and is determined by the designers in response to the client's brief. Its appraisal is relatively unproblematic and can normally be undertaken with reference to unambiguous technical criteria. Therefore performance on this criterion is not a possible source of competitive advantage for architectural practices. However, the other two criteria are much more ambiguous, indeed contentious, and can both be important sources of competitive advantage. The quality of conception is subject to peer review by the profession. Very few clients are architecturally literate, and largely rely upon recommendation from the profession in the appraisal of the quality of conception.† On the other hand, the quality of realization is very much subject to review by the clients. Only the client can judge whether their objectives have been met in terms of their own criteria for project performance. It is in this tension between the peer review of *conception* and the clients'

* Some may argue that under present conditions, the risk is more Icarian than Daedalean in character.

† The following model is developed from the work of Grace (1990).

* This is, of course, the area which has received most attention of late through the debate on BS 5750 and 'quality assurance'.

† Powell (1987) attempts a more formal analysis of this process of peer review drawing on the RIBA Annual Awards. Blau (1984, chap 4) uses a peer review technique to identify the 'heroes and rascals' of architectural thought.

review of *realization* that architects' Daedalean risk lies as they attempt to design for both their clients and their peers.

Creative organizations

Unlike many other professional organizations, such as law and quantity surveying where probity as a third party in a transaction is the distinctive competence, architectural practices are creative organizations. They are hired by clients to provide novel solutions to spatial problems. To cope with these demands, their training emphasises innovation and problem solving, and this creative process is at the root of why many joined the profession. One result of this is that creative acclaim, rather than business success, is a major stimulus to practice. Quality of conception can be a major differentiator between practices, and the role of creative excellence within the practice strongly influences its culture. The issue that many practices are addressing is the extent to which they can turn creativity into a competitive advantage.

Knowledge-based organizations

Architectural practices can, therefore, be thought of as a distinctive type of what are more generally considered as knowledge-based organizations.* These are organizations which only have the expertise of their staff as assets with which to trade. Thus, they are distinguished from the production industries and other service sector organizations, which although they may be described as 'people organizations', trade with significant capital assets and draw on extensive infrastructures which of themselves can provide sustainable competitive advantage. They are also distinguished from 'facilitator services' such as estate agents which act as brokers channelling rather than creating information and adding relatively little value. Knowledge-based organizations have distinctive problems of strategic management deriving from the interaction between their distinctive characteristics and the competitive environment in which they operate. Broadly, these strategic issues can be broken down into three key areas:

1. understanding the competitive context;
2. positioning the practice; and
3. deciding on the scope of the practice.

* The term is derived from 'Kunskapsföretaget', or knowledge firm (Sveiby and Risling 1986). It is developed further in Winch and Schneider (*forthcoming*).

Understanding the competitive context

Porter's (1980) framework for industry analysis is appropriate for understanding the competitive context of architectural practices. This considers five elements of industry structure:

1. 'Competitive rivalry.' This is presently intense due to the recession, the removal of fee scales, stock market listings forcing a drive for growth, low barriers to entry due to low start up capital requirements; high barriers to exit due to the lack of transferability of architectural skills, and, as Maister (1982) argues, the dynamic of growth due to the necessity to provide career advancement for staff with very similar levels of qualification.
2. 'The threat of substitutes.' In many areas, the architect's role has been threatened by technological advances, such as increased prefabrication and more sophisticated building services. Innovations in procurement methods have also diminished the architect's role, and substituted people like project managers and specialist trade contractors designing to performance specifications.
3. 'The threat of new entrants' comes from American architectural firms, interior designers, building surveyors, and integrated design and build contractors competing directly for design work.
4. 'The bargaining power of suppliers' is not relevant as the only critical input into architectural practice is qualified staff.
5. 'The bargaining power of buyers' has increased significantly during the recession, and those clients still active are demanding increased performance from architects.

As a result of these competitive pressures, the architect's position in the 'value chain' (Porter, 1985) has changed from being the client's representative located between the client and all the other members of the project coalition, to reporting to a project manager in that position. In some cases, architecture is little more than just another works package.

Positioning the practice

Within this industrial context, architectural practices need to position themselves so as to win work that they are capable of performing successfully. To do this they must differentiate themselves from the mass of rival competitors by articulating a distinctive competence, and then enter markets and gain commissions.

Perhaps the most sophisticated framework for understanding an organization's distinctive competence, or source of competitive advantage, is Porter's (1980)

model of generic strategies. He argues that firms can compete on two different dimensions – 'competitive advantage' in terms of whether they compete as 'cost leaders' or manage to 'differentiate' their product from their competitors, and 'competitive scope' in terms of whether they compete across the full product range, or 'focus' on a narrow niche. Firms that fail clearly to choose one of the four generic strategies are likely to perform poorly, and can be described as 'stuck in the middle'.

While very attractive, the Porter model was developed for manufacturing industries, and is not immediately applicable to professional practice. In particular, cost leadership, which is usually the result of heavy capital investment or preferential access to material inputs, is unattainable in professional practice due to its labour intensive nature and the lack of inputs. Maister (1982; Coxe *et al.* 1987), on the other hand, has attempted to develop a similar typology of generic strategies for professional practice in general, and architectural practice in particular. The model has two dimensions – 'technology', or the way in which the practice does its work, and 'values', or the ethos which motivates the practice. In terms of technology, the model identifies three generic types:

1. 'Strong delivery', characterized by a highly efficient service, often to clients seeking more of a product than a service involving repeated design elements with a reliable cost, programme, and technical excellence.
2. 'Strong service', characterized by experienced handling of complex assignments, the ability to deal with new and challenging project conditions, emphasis upon managerial processes that co-ordinate multi-disciplinary talents and services.
3. 'Strong ideas', characterized by singular expertise and innovation on projects of a unique nature which often depend on the character of the leading partner.

In terms of values, the model distinguishes:

1. 'The practice-centred business', where practice is seen as the exercise of a profession and a way of life. The organization's objectives are likely to be qualitative.
2. 'The business-centred practice', where the practice is seen as a business and a way of earning a living. The objectives are likely to be quantitative and financial.

Perhaps the main weakness of this model is that the dimensions upon which it is based are flawed because they do not, themselves, measure market characterstics. The problems are first, that what is described as 'technology' should be a market positioning dimension which a distinctive technology is deployed to meet, and second, that what he describes as 'values' is an internal cultural dimension rather than a market related one. The model is, therefore, trying to relate dissimilar dimensions, neither of which are measures of market positioning.

Developing from this work and the insights provided by Porter, the model illustrated in Figure 2 may be proposed which indicates the four generic strategies for better than average performance in architectural practice. The first dimension is that of *project complexity*.

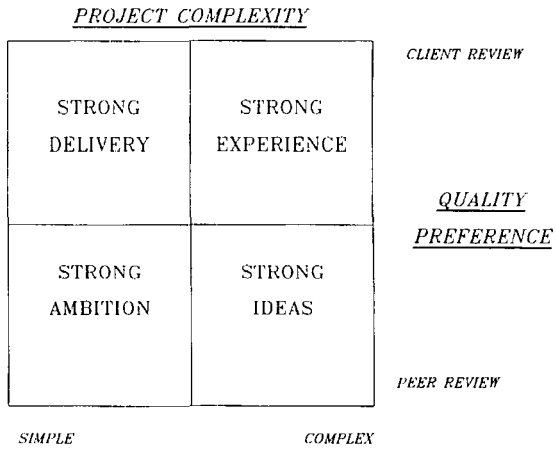

Figure 2 Generic strategies for architectural practice.

It measures how demanding the project is in terms of the sophistication of specification, its size, the rapidity of work required, or other special client requirements. The second is that of the client's *preference for quality* – whether the client chooses to emphasize conception or realization in determining quality. Where the building has a symbolic character, the client may choose to emphasize conception. Here the measure is the extent to which the design is acclaimed by the profession as innovative – heated debate may be as good a sign as universal admiration. Where project performance criteria of programme, budgetary control, or conformance to specification purpose are relatively more important, the client may prefer to emphasize realization.

It should be emphasized that 'good design' in the accepted sense is important at both ends of the dimension – it is the professional acclaim for originality in a process of peer review which defines conceptual quality. Many established and successful practices do not seek professional acclaim for aesthetic originality, rather the satisfaction of successfully resolving complex issues to the client's satisfaction in a process of client review of quality. On the other hand, clients who wish to

commission a prestigious building are largely reliant on professional acclaim for selecting the appropriate architect.

These two dimensions' yield four generic strategies which articulate particular distinctive competencies. Case study examples of the first three are presented in Winch and Schneider (forthcoming). They are:

1. *Strong delivery.* Here, successful practices are delivering designs for relatively simple building types at less than average fees, but a relatively high level of profitability through effective organization of the design process. They may make extensive use of repeat building elements, rely heavily on CAD, and have a high ratio of technicians to architects, or simply have low overheads. many of the integrated design and build firms use this strategy.
2. *Strong experience.* Here, established practices deploy their experience to meet the client's more demanding requirements. These may be complex or unusual building types, difficulties over planning permission, the sheer size of the project, or the ability to value engineer the design. Such practices can charge a premium of average fees, because their contribution to the project overall releases value for the client. Some of the larger practices which are effective here are multidisciplinary, while others have built up their experience by specializing in a limited range of building types.
3. *Strong ideas.* Here a distinctive competence is articulated by those practices that can charge a premium on fees because of their reputation within the profession for original and exciting ideas and will often be important players in the debates about architectural style. Clients who wish to commission a prestige building may be architecturally literate themselves, but will usually rely upon peer review for evaluating aesthetic quality. Often, such practices will be organized on a studio basis with a strong figurehead. The market for this type of work is limited, and strongly identifiable styles may well limit the range of potential clients even further.
4. *Strong ambition* is used by newly founded practices with high ambitions and few clients, by charging below average fees due to lack of reputation, and sometimes subsidizing practice through other activities such as teaching. This strategy is not sustainable in the longer term. The route to the strong ideas strategy is often through winning a competition, while that to strong experience is through specialization. Such practices may also compete with the strong delivery firms through low overheads, but are unlikely to develop the sustainable low cost base that leads to success with this strategy without the investment that their low profits prevent.

Only a few practices within the industry develop the distinctive competence to sustain one of the three main generic strategies – the vast bulk, earning average fees or slightly below, are stuck in the middle, with little ability to distinguish themselves from their competitors. Under the fee scales, or the steadily rising demand which accompanied their abolition, this perhaps did not matter too much; but with a severe recession now upon the industry, those practices which can articulate a clear distinctive competence to their potential clients are the most likely to survive.

This model can be used to indicate the ways in which practices change and mature. Initial success, such as winning a design competition, allows a practice to move from a strategy of strong ambition to strong ideas. Continuing success leads to growth, unless a deliberate decision is taken to restrict growth so as to retain the conditions which nurture originality and aesthetic excellence. Those that continue to grow move towards the strong experience strategy because of the need to sustain the workload, the partners age, and the leading edge of architectural style moves on. Unless this switch of strategy is consciously made, initially successful practices may find themselves stuck in the middle having lost their creative flair, but being unable fully to articulate a distinctive competence based on experience. This is exactly the tension that the case study of Arcop by Mintzberg and his colleagues (1988) shows. Other practices may move from the strong ambition to strong experience strategy through specialization. However, aims of continued growth are likely to imply diversification from the niche, where there is no reputation to back the experience. A further risk is that other practices specializing in the same niche may move to a strong delivery strategy as they build up repeated building elements and start to compete on price.

Entering markets and winning commissions

The generic strategies model indicates the broad market segments in which practices operate – it tells us little about how an individual practice wins a particular commission. Hill (1985) has distinguished between 'market entry' criteria and 'order winning' criteria for gaining orders. Thus, for the strong delivery category, a market entry criterion might be technical competence, while the order winning criterion might be price. For the strong experience firm, a market entry criterion

might be price, while the order winning criterion would be the ability to handle the client's specific requirements for the project. In the strong ideas category, the market entry criterion might be a level of experience, while the order winning criteria would be aesthetic. For those with strong ambition the market entry criterion is technical competence, while order winning may simply be a matter of luck.

Usually, the process of appointing an architect is based on the 'horses for courses' principle. The preliminary selection is likely to be on the client's perception of the practice's market position, which is largely a matter of reputation. The extent of specialization and prior experience with the building type under consideration will also be important. This sort of mental mapping is used when clients select a group of architects to enter a mini-market to win the order for a specific project. A key factor in being included in this preliminary process is to have an appropriate profile and perceived distinctive competence.

Once a shortlist of practices has been selected, the nature of the appointment process may vary with the distinctive competence required. In an open design competition, the design solution may be the key differentiator, while for simple building types it may well be price. Where the project is complex, the record of the practice is likely to be investigated in some detail. The overall *pack attractiveness* offered by the practice is likely to be what wins the commission. An important element of the pack will be price, but the architect's fees are a relatively insignificant element in total project costs, and an ability to add value or save money elsewhere on the project is likely to be rewarded.

Deciding the scope of the practice

As can be seen from the earlier discussion, specialization in a particular building type can play an important role in strategic choice in architectural practice. Many architects would argue that they provide a customized service, tailored to the needs of each client. They will, therefore, argue that they do not specialize in any particular area, and are able to handle any type of project, given the opportunity. In reality, however, clients wish to avoid risk, and seek an architect with an established reputation in work of a similar nature. In short, being all things to all clients is rarely viable, and an almost certain recipe for ending up stuck in the middle in practice.

Many practices, therefore, use specialization to establish reputation, but there are attendant risks. In addition to the ones identified above, there is the obvious one that the market may change and the demand for the building type or types chosen for specialization may change or disappear. Specialization in process terms, or the way in which design is performed may be a better option, but more difficult to achieve. It is, therefore, a crucial element of effective strategic management to explore how a practice may extend or reconceive itself, an issue which is explored in Higgins (1991).

There are four basic choices:

1. remain as an architectural practice, but offer a broader range of services;
2. diversify laterally into other building disciplines;
3. diversify vertically into development or construction; or
4. diversify outside construction into areas such as design.

The latter two have not been particularly popular, and in reality, the diversification has tended to be into architecture by contractors or design consultancies. The second strategy has been a popular one among those practices seeking to compete on strong experience. Engineering consultancies have also acquired or developed architectural practices. The first strategy is difficult, as shown by the case study of a specialized practice wishing to broaden its range (Usmani, 1991). A particular problem is that the close relationship between staff skills and building type means that a change in strategy may mean a change in staff.

Conclusions

The argument has shown how many of the strategic management issues which face other businesses also face architectural practices. Firstly, ways in which architectural practices can be seen as knowledge-based organizations trading in a distinctive competence of creativity was discussed. For creative knowledge-based organizations, the quality of the service offered to the client can be a major differentiator. The *quality of conception* is peer reviewed within the profession, while the *quality of realization* is reviewed externally by the client. The tension between the two can lead to major problems in managing architectural practices. Porter's industry analysis model was then used to develop an understanding of the contemporary context of architectural practice, before the 'SuperPositioning Matrix' developed by Maister and his colleagues was criticized for the poor specification of its parameters.

On the basis of this analysis, a strategic management matrix for architectural practices was developed, based on the parameters of *project complexity* and the client's *quality preference*. This yielded four generic strategies for architectural practice which were called the *strong ideas*, *strong experience*, *strong delivery*, and *strong ambition* strategies. The argument then went on to show

how the successful articulation of one of these generic strategies formed the basis for market entry; order winning was argued to be specific to each project, and based upon the client's perception of the overall pack attractiveness offered by the architectural practice.

However, the strategic management of architectural practice does not come easily, and several factors make the issues different from those in other businesses. Arguably, the most important is that financial success, size and market share, and how to achieve them, are not always the goals of partners in architectural practice, and, indeed, may at times be in conflict with success on the aesthetic dimension. Maister's cultural dimension is an important one for understanding what motivates partners when making strategic decisions.

Architectural practices typically face a tension between satisfying the creative needs of their partners and staff, and the more pragmatic desires of the client. The ethos of the profession and the esteem of professional peers strongly influence architectural practice, even among those competing on a strong delivery strategy. Architectural practices typically need to combine being product-oriented in the sense of stating to the clients that they are professional experts advising the clients in their own best interests, and market-oriented in terms of giving the clients what they ask for. However, it should also be recognised that the very process of satisfying the clients' short term needs, perhaps with a less than exciting building, may undermine the practice's creative resources and scope for differentiation in the future.

Architectural practices are notoriously difficult to manage. Not only is it difficult to anticipate and control workflow and cashflow, the process also involves managing creative professionals who are culturally resistant to being managed. Many architects find the idea of formal planning and adhering to a fixed strategy impractical. This is paradoxical, since architects spend their working lives developing concepts and then detailing plans for their implementation so that all aspects of the whole fit together. However, strategies may be crafted as well as formally planned and 'infuse' (Dumas and Mintzberg, 1989) the organization with direction. A major requirement is a sense of vision – an understanding of the distinctive competence, the underlying culture, and an awareness that to be effective, the whole and the parts needs to be consistent with that vision.

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