Spring 2015 Issue | Past PMKC Chairs Highlight the Architects Handbook of Professional Practice

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Letter from the Editor

Co-written by David B. Richards, AIA & Rena Klein, FAIA

We are pleased to present a collection of excerpts from the 15th Edition of the AIA's The Architects Handbook of Professional Practice in this edition of the Practice Management Digest. Special thanks to Rena Klein, FAIA, the current Past Chair of the Practice Management Knowledge Community (PMKC) Advisory Group and the Executive Editor of the Handbook, along with several past Chairs of the committee, each of whom contributed to the 15th edition. Rena has also provided an excellent overview of this edition of the PM Digest below.

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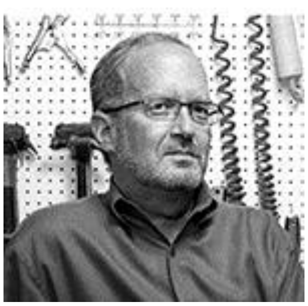
Secrets to Implementing an Architecture Firm's Strategic Plan



By Raymond Kogan, AIA and Cara Bobchek- Strategic planning involves thinking about the future. Companies large and small use strategic planning to envision their objectives for the future and lay out the steps they will take to achieve them. The strategic planning process begins with envisioning a desired future state of the firm, a destination toward which the plan itself will plot a course for the firm to follow.

[Read more »]

The Value of an Architect's Services

By David B. Richards, AIA- Although compensation for an architect's service is based on three key factors; the value of the service, the effort required providing the service and the risks in providing the service; an architect's services are more valuable than the cost of delivering the service.

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Best Practices

New Look and New Organization for the AIA Best Practices

AIA Best Practices represent the collective wisdom of AIA members and related professionals. As a group, they are; a compendium of relevant knowledge gained from experience; immediately applicable to a task at hand; distilled to their essentials; usable information; linked to related resources; kept relevant and up-to-date by inviting feedback from practicing professionals. The scope of knowledge and information that can be included in AIA Best Practices is unlimited. The collective knowledge of AIA and allied members is a realm that is constantly expanding.

[Read more »]

Scholarship

2015 a/e ProNet Scholarship Applications Due April 2

ae ProNet

Two students, who best demonstrate strong interest in practice and risk management, will each receive a $5,000 scholarship toward their university tuition and fees. The award check will be mailed directly to the university; it may not be deferred for use later or transferred to another individual.

Submission Deadline: April 2, 2015. Results will be announced by May 30, 2015.

Eligibility:

- Fourth year students in a NAAB accredited degree program, or
- Fourth year students of a four-year pre-professional degree program in architecture accepted for direct entry to a two-year NAAB accredited M.Arch/D.Arch program, or
- First year students in a NAAB accredited M.Arch/D.Arch degree program for students with undergraduate degrees in another discipline.

Eligible applicants must demonstrate an interest/or concentration in practice or risk management.

For questions, please contact pmkc@aia.org.

Apply Now

Upcoming Events

PM Luncheon and Marketing Check-Up

Practice Management Lunch: Growing into Their Own

Friday, May 15, 2015 \ 11:30 AM - 1:30 PM \ Georgia World Congress Center Room B305 \ Fee: $75 \ EV309

Listen to James & Hayes Slade, panelists from the 2014 PMKC & AIA New York Symposium, speak on their personal and professional experiences on being a 21st Century start-up. They co-founded Slade Architecture, a design focused architecture firm based in downtown Manhattan in 2002. Their work operates with intrinsic architectural interests: the relationship between the body and space, movement, scale, time, perception, materiality and its intersection with form. Layered on this foundation, is a consistent investigation of the specific project context. Don't miss your chance to hear from two of the top innovators in our field!

Register Now

Get a Free Marketing Communications Check-Up

Thursday, May 14, 2015 \ 12:00 PM - 2:00 PM \ AIA Town Hall Booth 4345 \ Fee: $0 \ EV203

Friday, May 15, 2015 \ 11:00 AM - 1:00 PM \ AIA Town Hall Booth 4345 \ Fee: $0 \ EV308

Gain valuable feedback on the effectiveness of your firm's marketing communications. Bring your marketing plans and collateral to AIA Town Hall on the the convention expo floor to take advantage of a 15-minute communications checkup with a seasoned marketing professional. The check-up will include a sustainability audit of your firm's marketing collateral. You'll also take away suggestions to improve your firm's return on investment in marketing and client development initiatives. This event is brought to you by the AIA Practice Management Knowledge Community and the Society for Marketing Professional Services.

Register Now (Thursday)

Register Now (Friday)

Free Webinar: Meeting Challenges & Overcoming Obstacles During CCA- Approaches Toward Best Practice

Wednesday, March 25, 2015 | 1:00 - 2:00 PM ET | **Earn 1.0 AIA LUs** | Learn more

Sponsored by the AIA Construction Contract Administration (CCA) Knowledge Community

An approach toward ideas for advancing the effectiveness and value of architectural service provided in the construction contract administration phase. Identifying some of the challenges encountered during this phase, ideas for establishing a methodology in anticipation, to avoid them and preparations made to surmount them.

Register Now

Free Webinar: AEC Hackathon

Tuesday, April 7, 2015 | 3:00 - 4:00 pm ET | **Earn 1.0 AIA LUs** | Fee: $0 | Learn more

Sponsored by the AIA Technology in Architectural Practice (TAP) Knowledge Community

Join us for a behind the scenes look at the AEC Hackathon with Paul Doherty, the co-founder of the AEC Hackathon community. The AEC Hackathon is a non-profit event that creates on-the-spot teams of technologists and industry stakeholders to shape the future of our built environment. The hackathon provides a playful, exploratory environment where disruption and creative ideas are the essential tools for innovation. The webinar will showcase past AEC Hackathon solutions, what the community does today and what the AEC Hackathon is doing next.

Register Now

AIA Contract Documents Products for Small Firms

Thursday, April 9, 2015 | 1:00 - 2:30pm | No credit available | Fee: $0

This free webinar will include Documents on Demand Plus, ACD5 online platform, and desktop software training. Attendees will also learn where to access free AIA resources, tools and guides developed to assist small firms in contract administration. Attendees will follow along while the trainer shows you how to use key features, access resources and support, and answers your questions about AIA Contract Documents products suitable for small firms.

Please contact Hasti Hejazi at hastihejazi@aia.org if you have any questions or difficulties in registering. After registering, you will receive a confirmation email containing information about joining the webinar.

Register Now

Resources

AIAU Courses on Practice Management

Check out the latest courses on business practices and trends in architecture, available on AIAU. New courses include the series When Change Means Going International, a panel discussion on the AIA Foresight Report, and a detailed course on BIM.

You'll learn from top instructors on your schedule, from anywhere in the world. Once you complete a course, we'll automatically update your AIA transcript with your continuing education credits.

Check out these great courses:

When Change Means Going International- Overview | Earns 3 LUs / RIBA

When Change Means Going International- Canada | Earns 1 LU / RIBA

When Change Means Going International- India | Earns 1 LU / RIBA

When Change Means Going International- Africa | Earns 1 LU / RIBA

When Change Means Going International- Middle East | Earns 1 LU / RIBA

When Change Means Going International- Mexico | Earns 1 LU / RIBA

When Change Means Going International- Europe | Earns 1 LU / RIBA

When Change Means Going International- Brazil | Earns 1 LU / RIBA

When Change Means Going International- China | Earns 1 LU / RIBA

BIM: The Big Picture | Earns 1 LU / RIBA

AIA Foresight Report Panel Update | Earns 1 LU / RIBA

Individual courses are $25 for AIA members and $40 for non-members. Buy four or more courses and save 15%, no promo code needed.

Check out more great courses on AIAU >

The American Institute of Architects
1735 New York Avenue, NW
Washington, DC 20006

Letter from the Editor

Co-written by David B. Richards, AIA & Rena Klein, FAIA

We are pleased to present a collection of excerpts from the 15th Edition of the AIA's The Architects Handbook of Professional Practice in this edition of the Practice Management Digest. Special thanks to Rena Klein, FAIA, the current Past Chair of the Practice Management Knowledge Community Advisory Group and the Executive Editor of the Handbook, along with several past Chairs of the committee, each of whom contributed to the 15th edition. Rena has also provided an excellent overview of this edition of the PM Digest below.

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As executive editor of the 15th edition of the Handbook, I can assure you that this newest version is both connected to and unlike all that have come before. Published by AIA since 1920, The Architect's Handbook of Professional Practice is known as the definitive source for practice information. However, in past years, the 1000 page tome has not generally been seen a viable source of knowledge that is relevant to small and large firms alike. All that changes with the 15th edition.

Two-thirds of the 15th edition content is completely new. The content reflects the current state of practice and looks ahead to emerging trends. Over 90 percent of 15th edition authors are new to writing for the Handbook, yet all are experts in their topics. Many of these authors are seasoned practitioners, sharing insight sourced from personal practice experience. Overall, they represent a diverse group that is reflective of the profession as a whole.

<u>More Content for Smaller Firms</u>

All authors in the 15th edition were encouraged to help readers apply general information and recommendations to the context of smaller sized practices. To supplement information that might apply only to larger firms, authors from small and mid-sized firms were asked to write about their experiences. As a result, many articles include addendums called "Backgrounders," which often contain targeted knowledge and best practices directly applicable to architects who practice in small and mid-sized firms.

For instance, are you wondering whether to transition your firm to using BIM technology? You can find the answers you need in the Handbook. An article called Small Firms, Small Projects and BIM provides insight into the pros and cons, the

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transition process, and the impact on workflow implicit in using BIM technology.

Interested in knowing how architect-led design-build might apply to your practice? Read the article called Architect-Led Design Build and Architect as Construction Manager for Small Projects and Small Firms. It offers knowledge about how alternative ways to deliver projects might expand your service model and help you make more money.

You might think that only large firms can have multiple offices. Not true. An article called Developing and Managing a Mid-sized Multi-office Firm describes a forty-to-fifty-person firm with offices in Vancouver, BC and Seattle, WA, adding an international component to the challenges and opportunities of a multi-office firm. Providing a case study of their experience, the leaders of this firm discuss both strengths acquired and lessons learned in managing multiple offices.

Other emerging ways to practice in smaller firms are also highlighted in the 15th edition of the Handbook. Research and Small Firm Practice discusses how design exploration and knowledge creation can invigorate and enhance the capabilities of small firms, as well as how research might be funded in a small firm context. There is an article called Small Firm Collaboration, which explores ways that small firms are aligning with other design firms to acquire and deliver work. It describes best practices and common structures for collaboration and highlights case studies of firms from around the nation as illustrations of various options.

New Chapters

For the first time in the Handbook, an entire chapter is devoted to technology management. In addition to technology, the 15th edition includes a number of other chapters new to the Handbook. These include: Diversity and Demographics; Career Development; Public Interest Design; and Research in Practice.

Twenty-first century business realities require that entrepreneurial architects develop skill in business management. The chapters on organizational development, marketing, finance, and human resources contain articles that demystify concepts and introduce firm leaders to best practices in each management arena. Articles on topics such as ownership transition, leadership effectiveness, and the legal context of practice provide information and knowledge vital to firms of all sizes.

Check out the new 15th edition of The Architect's Handbook of Professional Practice – you might be surprised at what you can learn. Select chapters of the Handbook, as well as the entire volume, are available through the AIA Bookstore."

An Overview of Ownership Transitions

By Michael Strogoff, FAIA

For many decades, it was not unusual for ownership transitions to occur with little more than a few discussions, a handshake and a short written agreement. The transition choices that an owner of an architectural firm had were relatively straightforward, and the factors influencing how a transition was structured didn't change much. As architectural practice has gotten more complicated, new forces and factors emerged, which require firms to consider transition planning as an essential strategic initiative:

Owning an architectural firm can be tremendously rewarding. Owning a firm is also full of challenges, and one of the largest revolves around how to successfully transfer ownership of a firm from its current owners to others. When owners start the process of transitioning the ownership of a firm, they must consider many issues:

- Whether to transition a firm internally or sell to an outside entity
- How the changing economic and societal landscape impacts timing and options
- How to create incentives for future owners while rewarding outgoing owners for efforts and investments
- How to develop a valuation methodology that reflects a firm's history, intellectual capital and future outlook
- How to ensure that a firm's values and culture endure as a transition is completed

Despite the many issues, crafting and implementing an ownership transition plan is not beyond most owners' abilities. What is needed is a successful firm to sell, adequate time, a willing buyer(s), and a well thought-out roadmap.

The need for "ownership transition"

Architectural firms can be viewed as living, adaptable entities, responding to internal and external forces: owners wanting to retire; key employees examining alternative opportunities; shifting demographics; generational differences; industry-wide consolidation; economic and market forces; technological changes; evolving project delivery methods; and rapidly changing client expectations. Firms that successfully adapt to these forces can prosper through many generations of ownership and leadership transitions.

There are many reasons to proactively plan for an orderly ownership transition:

- Leveraging and perpetuating the reputation, contacts and portfolio that a firm and/or an owner spent decades to build
- Retaining and rewarding key employees that contribute to a firm's success

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- Broadening a firm’s skill base and service offerings by expanding its ownership team
- Providing outgoing owners income to help fund their retirements in exchange for years of hard work and risks assumed
- Continuing to service loyal clients that depend on a firm’s ongoing operations
- Ensuring a firm’s access to professional liability insurance after an owner retires

Firms need to plan for ownership transitions throughout the economic cycles that invariably occur. During periods of growth and profitability, firms should be setting aside funds to at least partially fund the transition process and should be hiring with an eye toward future owners. During economic downturns, firms should be making swift, strategic decisions to ensure their survival, retain key staff and position themselves to rebound as the economy improves. For some firms, prolonged economic downturns will diminish their staying power and create an urgency to attract new owners, to merge practices or to sell to a larger, more stable firm.

Transition Options

Regardless of the reasons why an owner wants to sell a firm, there are two options available to those who plan ahead — internal transitions and external mergers or sales. For owners without an adequate transition plan, a less desirable third option, closing shop, may be the only choice available. However, closing the doors represents a unique set of challenges:

- It is difficult and often expensive to wind down projects on different schedules
- It is difficult to maintain employees to complete projects when it becomes known that the firm is closing
- Maintaining insurance to protect owners against claims of negligence is both expensive and seldom available to provide adequate protection throughout the entire period until statutes of limitation expire
- Depending only on savings and investments to fund retirement

Internal Transitions:

Internal transitions can take different forms: selling portions of the firm to other firm members; recruiting senior people from outside the firm to join the firm as key employees and eventually assume ownership; or creating an employee stock ownership plan (ESOP). As ESOPs are typically appropriate for larger firms and only under special circumstances, firm owners should engage outside accountants and attorneys for guidance.

Benefits of selling a firm internally include: maintaining control of the firm longer; handpicking the successors; structuring the transition gradually; the opportunity to attract, retain and reward future leaders; a higher likelihood of maintaining a culture within the firm; and greater client acceptance of the transition.

Challenges with internal transitions include: making internal transitions affordable and attractive to new owners; hiring and mentoring enough candidates who have the resources, interests and skill sets required to assume ownership; gaining the acceptance of employees of new leaders who they have previously viewed as peers; and allocating the time and providing the training needed to mentor new owners. And, once an internal transition is implemented, if a firm’s profitability suffers and its value declines, morale decreases, the ability of new owners to make payments to outgoing owners declines, and some new owners search for an exit strategy.

External Transitions:

Selling a firm to an outside entity can likewise come in two forms: a merger or a sale. Benefits of selling a firm to an outside entity include: higher sale prices; more liquidity; lesser risk as transitions typically occur over a shorter timeframe and payments are not as linked to ongoing profitability; and opportunities to redefine the day-to-day responsibilities of the owners of the seller. In addition, the owners of the selling firm (for as long as they remain), as well as its key employees, often benefit from a buyer’s broader portfolio, market diversity and access to larger clients and therefore the opportunity to work on more challenging projects. For owners, a major attraction of selling a firm is the ability to get away from spending time running a business. And for many employees of a selling firm, working for a larger firm often provides new project and leadership opportunities.

Challenges for external transitions start with the difficult and often time-consuming process of finding a buyer with whom a selling firm shares common values. Related to this is the challenge of maintaining confidentiality while searching for and conducting exploratory discussions. During negotiations, stalemates often occur as buyers and sellers place different values on the seller's firm. External transitions are also more prone to employee and client defections. Finally, for many owners, giving up control of a company they once owned is emotionally stressful.

Making the Choice

Owners should carefully evaluate their options every few years. Some owners choose to focus on an internal ownership transition because of a desire to see the lasting value of the firm continue to prosper in the hands of people they mentored, and want to reward the loyalty of key employees. Others focus on an external transition because it might result in a higher price or because it creates opportunities to work on more exciting projects.

From a financial perspective, if a firm is generating above-average profits and possesses a strong backlog, an owner is probably better off implementing an internal transition plan and continuing to receive profit distributions as shares are sold. Many think that internal ownership transitions are preferable, and probably better for the profession; this is only true if owners properly plan and are able to attract and retain younger colleagues who have the talent, the personality, the skills and the entrepreneurial drive to successfully take over the helm.

On the other hand, if a firm is highly desirable (e.g., it opens new markets, brings expertise in new building types, has a large backlog and/or strengthens a buyer's leadership team) and can therefore command a price based on a high multiple of earnings, an owner can realize considerably higher financial returns with much less risk by selling his firm externally.

The important thing is for firm owners to always look ahead so they have options to pursue and a plan in place when they do decide to transition out of the architectural profession.

Summary

Regardless of whether firm owners decide to pursue an internal transition or an external sale, they should start early and allow ample time. Anticipate that not everyone approached will be interested in assuming ownership or place the same financial value on the firm as the current owners. Think about professional goals—ownership transitions represent a unique opportunity for architects to redefine their professional life. Establish a realistic valuation that is easily measurable, understandable by all parties, and accounts for changes in the firm's profitability and future outlook. Above all, pay close attention to how the transition will promote or change the current culture.

About the Author:

Michael Strogoff, FAIA, has advised many of the nation's most successful architecture, landscape architecture, engineering and specialty design firms; managed large and complex projects over a 35 year career; and guided firms nationwide in the ownership transition process. As a former managing principal of an architectural firm, a frequent speaker and author on mergers and acquisitions and ownership transitions, a five-year Advisory Group member to AIA's Practice Management Knowledge Community, and an advisor to design professionals nationwide, Michael Strogoff brings an in-depth understanding of the architecture, engineering and interior design industries and of the ownership transition and mergers/acquisition process.

Michael recently authored the chapter on Ownership Transitions for the ***15th edition of AIA's The Architect's Handbook of Professional Practice***. He has been awarded Presidential Citations and Commendations from the AIA California Council and AIA San Francisco for his contributions to the design professions and, in 2009, was elevated to the American Institute of Architects' College of Fellows for his contributions to the practice of architecture.

For more information, visit www.StrogoffConsulting.com. Michael can be reached at

Michael@StrogoffConsulting.com and at 415.383.7011.

Financial Management: Beyond Intuition

By Rena M. Klein, FAIA

Do you ***know*** if your firm is profitable?

As a financial management tool, intuition has its limits. While most small firm owners have a good sense of what's happening financially at their firms, operational indicators such as cash flow shortages or mounting receivables don't tell the whole story. Strategic decisions, such as when to hire or move from home to an outside office, require understanding of financial trends within your firm and ability to create financial forecasts, even in an unpredictable business environment.

Financial management involves tracking key financial indicators pertinent to firm financial health and using the information to forecast likely future performance. Without some reasonable expectations of future revenue and expenses, it is difficult to plan and make basic business decisions. Understanding financial indicators helps you see what has just happened and what might realistically be expected to happen in the future.

Time Sheet Discipline

Steve L. Wintner, author of ***Financial Management for Design Professionals*** (2006), uses the term, "time sheet discipline" to emphasize the importance and, to some extent, the challenge of tracking time in professional service firms. After all, time spent working on projects is all that we have to sell as design professionals. Of course we are selling our knowledge, creativity, and experience as well, which ultimately determine how valuable we are to our clients. But tracking time actually spent on projects, and on non-project activity, is how we can measure our tangible performance in relation to the market value of our services.

Time tracking begins with having a system to record time and a way to collate the records into useful information. Both have been automated through the use of desktop software and mobile apps, and there are plenty of cloud-based low-cost solutions available on the web. It merely takes a commitment to keep accurate records of your time and a discipline to carry out that commitment throughout your firm.

Tracking hours is important in many ways to the operation of a firm. Figure 1 shows all the aspects of firm management that are touched by time tracking. These include payroll, invoicing, project tracking in relation to project budgets, and collection of data for key financial indicators and for future proposals and expense budgets.

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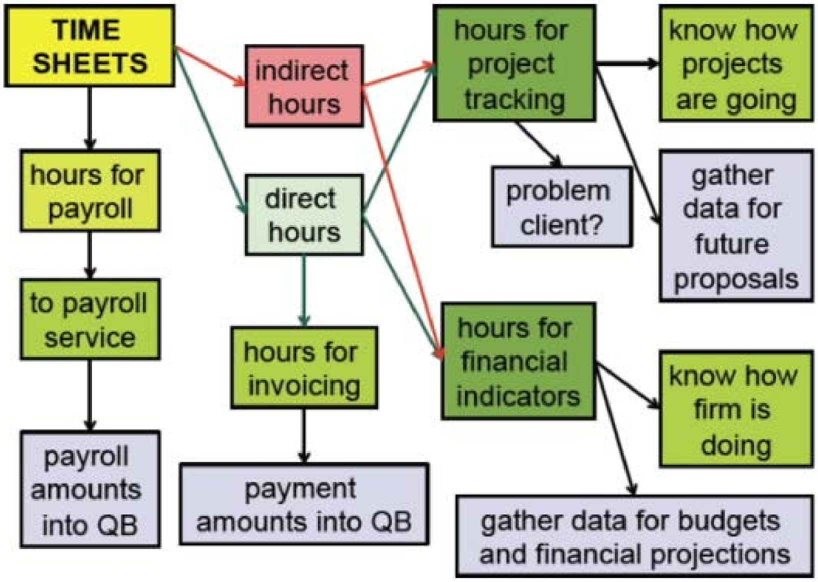

Figure 1: The importance of “Time Sheet Discipline”

As indicated in Figure 1, it is important that the time recorded is separated into direct hours and indirect hours. Direct hours are defined as hours spent working on a project under contract; indirect hours are all others, including time spent on marketing, interviewing with potential clients, and doing all other types of firm management work. As we know, not all direct hours will turn out to be billable, but they should be recorded as direct hours nevertheless, to provide an accurate record of what it actually took to deliver projects.

Key Financial Indicators

Key financial indicators are a subset of key performance indicators (KPIs) that can be tracked for many different aspects of a firm’s operations. For example, KPIs for marketing might include the “hit-rate,” a metric that tracks the number of jobs won relative to number of proposals sent out. For financial performance, there are a few metrics that are critical to quickly understanding the financial health of the firm. When viewed over time, these indicators can reveal the overall effectiveness of the firm’s project acquisition and delivery processes.

Most of the financial indicators discussed here are ratios that measure performance in relation to the cost of direct labor (salary, wages, or draws). This is, the cost of the time put into working on projects. Mathematically this means that the metrics are ratios with direct labor expense as the denominator. Here are three important ratios to watch:

• **Overhead Ratio**: total indirect expense ÷ direct labor expense

Total indirect expense (aka: overhead) is made up of indirect labor + payroll burden + general and administrative expenses. Payroll burden is the total of payroll related expenses, such as payroll taxes, health care, and retirement benefits. General and administrative expenses are all other expenses, such as rent and supplies.

Overhead rate answers the question: for every dollar spent on direct labor, how many dollars do I need to earn to cover the firm’s overhead? Industry benchmark for overhead rate is $1.50 – $1.80, but it can vary significantly depending on firm location.

• **Break-Even Ratio:** [total indirect expense ÷ direct labor expense] + [direct labor expense ÷ direct labor expense] or simply, overhead rate + 1.

Break-even rate answers the question: for every dollar spent on direct labor, how many dollars do I need to earn to break-even – that is, to cover both overhead and direct labor expense? Industry benchmark for break-even rate is $2.50 – $2.80.

• **Net Multiplier Achieved:** net operating revenue ÷ direct labor expense Net operating revenue (NOR) is defined as gross revenue (revenue from all sources) minus direct expenses, such as outside consultants and other project related expenses. Direct expenses are expenses that would not exist if there were no projects. Essentially, NOR is the amount of money available to actually run the firm and do the work of delivering projects.

Net multiplier achieved answers the question: for every dollar spent on direct labor, how many dollars did I earn in net revenue? Industry benchmark for multiplier achieved is greater than $3.00.

Once you have determined these ratios, it is possible to quickly determine whether the firm is being profitable. If the multiplier achieved is greater than the break-even rate, the firm is making a profit. If not, the opposite is true. It is a simple as that.

You can do this for any time period and as often as you like, as long as time sheets are up to date and direct labor expense is separated from indirect labor expense.

• **Net Operating Revenue per Staff Member:** net operating revenue ÷ number of staff (Full Time Equivalency) This will provide a general notion of how much net operating revenue would be needed to add another staff member.

Financial management can provide a way to understand whether big picture professional goals are being accomplished, including those involving profitability and satisfactory compensation for both owners and staff. While profit is not the only "bottom line" that might be considered meaningful, it adds to a sense of satisfaction and success for most.

About the Author:

Rena M. Klein, FAIA is the author of The Architect's Guide to Small Firm Management (Wiley, 2010) and principal of RM Klein Consulting, a firm that specializes in helping small firm owners run their firms better.

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A SUPPLEMENT TO ARTICLE 10.9, CONSTRUCTION PHASE SERVICES

THE ARCHITECT'S HANDBOOK OF PROFESSIONAL PRACTICE, 15th ed.

By: James B. Atkins, FAIA

Introduction

The role of the architect during construction has evolved over the years. In the late 19th and early 20th centuries, architects took a strong role during construction and advertised as, "Architect and Superintendent." However, by the mid 20th century when professional liability insurance came about and claims increased, architects took a more passive, observer role, and some insurance carriers suggested avoiding this phase of service altogether. However, today the value of the architect during construction is being reexamined, and greater emphasis is placed on "being there" until the project is completed. Overall, a more proactive approach to construction contract administration (CCA) services is being pursued.

The Need for the Architect

The architect is uniquely placed as the entity most suited for determining conformance of the constructed work to the contract documents. While contractors are prohibited from knowingly constructing the work in nonconformance, the constructor's priorities for conforming work can be challenged and potentially compromised by a faster or cheaper way to construct. Moreover, conformance of the work to the contract documents can be somewhat subjective, and the numerous "means and methods" available for constructing a particular building element may create a potential conflict of interest on the part of the contractor if the architect is not participating.

Another challenge to work conformance has manifested through the process referred to as Value Engineering (VE), which should not be confused with the VE process developed during World War II. Today's VE cost reducing exercise is typically neither value sustaining nor is it related to an engineering discipline. Substitutions can be made that compromise quality and conformance, and when owners choose to forego the architect's CCA services, the purpose and effectiveness of licensed professional design is denied.

New Model Law

Concern over the architect's presence in construction has been such that in 1999, the National Council of Architectural Registration Boards (NCARB), which is made up of all U.S. architecture licensing boards, queried 9,450 building officials, of which 95% agreed that a registered architect or engineer is essential on any "substantial" building project.

As a result the NCARB published Model Law Section 10A - CONSTRUCTION CONTRACT ADMINISTRATION SERVICES REQUIRED, which requires a registered architect be retained by the owner during construction. Enforcement of this requirement rests with the individual licensing boards, of which at least 17 states have adopted this requirement into their statutes thus far.

The model language states, "An owner…shall be deemed to be engaged himself/herself in the practice of architecture unless he/she has employed an architect to perform at least minimum construction contract administration services, including (i) periodic site visits, (ii) shop drawing review, and (iii) reporting to the owner and building official any violations of codes or substantial deviations from the contract documents which the architect observed."

The language also requires, "It shall be the project design architect's obligation to report to the state board and to the building official if he/she is not engaged to provide construction contract administration services…"

Being There

This obviously changes the playing field for the architect during construction in the adopting states. If the project is located in a state that has adopted the NCARB model law, the architect who faces the prospect of CCA being removed from its services now should advise the owner that, unless another licensed architect is retained for these services, the owner will be, "engaged…in the practice of architecture," in violation of the state statutes. More importantly, the architect is obligated to, "report to the state board and to the building official if he/she is not engaged to provide construction contract administration," ***even if another registered architect is retained***.

It is also important to note that if the complete model law language has been adopted by the state, "…substantial deviations from the contract documents which the architect observed," must be reported to building officials in addition to code violations. When fulfilling these statutory requirements, the architect should insist on providing the minimum CCA services listed above and not allow an owner to "pick and choose."

Conclusion

The architect's services during construction are beneficial on all projects and required by statute in many states. Architects providing "record" design services should always include CCA services. Owners that do not retain an architect during construction may be unlawfully engaged in the practice of architecture.

The architect may not be able to determine substantial and final completion of the work without appropriate site observations and a complete knowledge of scope changes, including change orders and VE/substitutions. CCA services are addressed in AIA Document A201-2007, ***General Conditions of the Contract for Construction*** and Article 10.9 in ***The Architect's Handbook Of Professional Practice***.

Confer with your owner during contract negotiation on the benefits and legal requirements of CCA services, and along the way, be careful out there.

The End

For More Information:

The Architect's Handbook of Professional Practice, 15th edition (Wiley 2014) by The American Institute of Architects

AIA Document, A201-2007, ***General Conditions of the Contract for Construction***

NCARB Legislative Guidelines and Model Law - Model Regulations 2014-2015, (NCARB 2014), go to www.ncarb.org

Managing Project Risk: Best Practices for Architects and Related Professionals, (Wiley 2008), by James B. Atkins and Grant A. Simpson

About the Author:

Jim Atkins is an architecture standard of care consultant in Dallas, Texas. Publications include The Architect's Handbook, AIArchitect, and two books. He consults for National Geographic Magazine and PBS Nova.

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Secrets to Implementing an Architecture Firm's Strategic Plan

The content in this article is partially excerpted from The Architect's Handbook of Professional Practice, 15th Edition, Chapter 5.3 ***"Strategic Planning for the Design Firm***"

By Raymond Kogan, AIA and Cara Bobchek.

Why Businesses Use Strategic Planning

Strategic planning involves thinking about the future. Companies large and small use strategic planning to envision their objectives for the future and lay out the steps they will take to achieve them. The strategic planning process begins with envisioning a desired future state of the firm, a destination toward which the plan itself will plot a course for the firm to follow. If this vision for the future is considered the destination of the firm, then the strategic plan provides the road map to reach it.

The purpose of strategic planning is to create positive changes and outcomes for a firm that aligns with its values and professional aspirations. In its strategic plan, a firm can articulate its fundamental mission, describe its long-term vision, and address its issues, initiatives, and goals in management, operations, and other crucial firm functions. The strategic plan is different from a marketing plan or a business plan in that it typically encompasses a broader scope of topics over a longer period of time, combining long-, mid-, and short-term strategies and action plans.

Architecture firms—from sole practitioners to large, multinational firms—can prepare for, understand, and respond to the dynamics of the ever-changing economic, social, and political environment in which they practice: they can plan for change, which is inevitable, and essentially design their own futures through strategic planning. Industry studies confirm that companies and organizations of all types that employ strategic planning tend to be more successful than firms that do not.

Implementing an Architecture Firm's Strategic Plan

Architecture firms often stumble when it comes to implementing their plans, validating the contention that firms tend to over-plan but under-implement. Because the purpose of strategic planning is to bring positive change to a firm, it's imperative that plans are put into motion and are carried through to the next planning cycle, managing and delivering the elements of the plan with the same priority as the firm's most important projects.

One of the most effective measures a firm can take to improve the odds of implementing its plan is to be extremely selective about what goes into the plan. Rather than pack the plan full of anything and everything the firm could do to improve, it is far better to prioritize only those strategies and action plans that will "move the needle" in terms of creating a major beneficial impact, thinking in terms of incorporating Mies van der Rohe's minimalist maxim of "less is more."

Here are some tips that will improve a firm's success in implementing its plan:

• Assign a champion for each action item to act as a “project manager” for that item, with the firm leader as the “principal-in-charge” of the entire plan. Each member of the strategic planning team should be conspicuously enthusiastic about the plan as they carry out their assigned actions, report progress to their own staff, and elevate staff input back to the planning team.

• The strategic planning team should stay together through a series of regular meetings throughout the months and up to a year following the launch of the plan to constantly assess progress on its implementation. Firms that keep up monthly meetings throughout the year enjoy the greatest success from their strategic planning.

• In order to encourage accountability for completing the action plans, manage the established deadlines by using them as agenda items in the strategic planning team’s regular meetings. Employ the “two strike” rule: if a champion misses a deadline once, immediately reschedule it. If the champion misses the new deadline, then assign a different champion. In the long run, it’s much more important that the action plans are completed than who actually completes them.

• Keep the plan relevant and active throughout the year by reviewing the effects of each action plan as it is implemented. Ask the team to reflect and report on the following:

  • Did the action item effect positive change for the firm? If so, report that positive effect to the staff and take time to celebrate success. If not, analyze the reasons why and reexamine whether to repeat that action in the future.

  • If the action item is still relevant, have circumstances changed such that a course correction is required? If so, document the changed circumstances and update the plan accordingly, making any new assignments that may be required.

  • Renew the strategic plan annually. While the plan will contain a long term five-year vision and shorter term three-year goals, most of the action plans are intended to be completed within a year. Updating the plan each year recognizes that progress will have been made, and that many things change both within the firm and in the outside world.

Smaller firm owners may need to be judicious to ensure that the ambitions expressed in their strategic plans don’t exceed their own capacity to implement them, and will likely need to prioritize implementation actions and execute them over a longer period of time. Owners of smaller firm will also need to be realistic when it comes to implementing their plans. Time spent to implement strategic plans will need to be carved out from the everyday demands of project acquisition and delivery.

A Closing Thought

Failing to implement a strategic plan leaves a trail of disappointment: among the planning team itself, whose energies have been at least temporarily channeled into developing the plan; among anyone else who was interviewed or asked their opinions about the future of the firm; and throughout the firm’s employees who have had their hopes raised at the prospect of a “road map” for their firm’s future.

Strategic planning is the most potent management tool a firm can use to define and direct its future. But strategic planning requires multiple forms of investment: time; resources; and attention. After such a commitment, a firm needs to take active steps to ensure that its plan will be fully implemented in order to achieve a true return on that investment.

About the Authors:

Ray Kogan, AIA is a management consultant and architect with 40 years of experience. He founded Kogan & Company in 2004 to advise design firms nationwide in strategic planning. Ray has also been a member of the AIA Practice Management Knowledge Community Advisory Group as well as the editor of the Practice Management Digest. He can be reached at rkogan@kogancompany.com.

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The Value of an Architect's Services

The content in this article is partially excerpted from The Architect's Handbook of Professional Practice, 15th Edition, Chapter 15.2 ***"Services and Compensation"***

By David B Richards, AIA

Although compensation for an architect's service is based on three key factors; the value of the service, the effort required providing the service and the risks in providing the service; an architect's services are more valuable than the cost of delivering the service.

Compensation is directly related to the value of the services. Although value is ultimately defined by client perceptions, some successful firms have adopted overall business strategies and market positions based on the benefits their services can provide to clients. The principles are simple: Firms perceived to be the best in a particular arena or firms that offer unique services will be in demand, and clients will pay a premium for their expertise. Conversely, firms perceived to be "just like everyone else" often will be evaluated on price alone.

Value is based on many factors that may include:

- Design Preeminence – a special talent for a particular type of project
- Project expertise – successful experience delivering particular project types. In depth knowledge of the detailed requirements for a special building type like a hospital, high school or arena
- Quality of service - demonstrated success in delivering projects on time and on budget
- Project management/leadership – special ability to lead the project delivery process
- Unique services
- In-depth understanding of how buildings delight the user while helping the client.

An architect's services are more valuable than the cost of delivering the service. The value of services can be related to special talents, unique abilities, speed of delivery, specific project knowledge or exceptional design ability. Unique specialized services or abilities are valuable to clients and an architect that offers these should structure fees to benefit from those unique abilities and services.

An architect should work to understand the marketplace to know the value of their professional services. Specialized knowledge of a building type may result in the services being worth 20 -30% more than the cost of providing those services. The ability to deliver a project faster than the competition can be especially valuable to the client. It can save them project costs in many ways and may increase the value of services 10 - 20%. Other unique consulting abilities offer similar value to the client; value that is reflected in higher fees

Frank A. Stasiowski, FAIA, President/Owner, PSMJ Resources, Inc., in his prediction of the future of design practice, emphasized the need to seek compensation for the value of services, noting that the value of the services provided by the architect exceeds the cost of the time to provide the service. (***Impact 2020 Ten Giant Forces Now Colliding to Shake How We Practice Design in the Future,*** 2010)

> ***How can you earn a living selling an hour? You can't.***
>
> ***When you go to the dentist, you don't pay an hourly fee. What you want is a new tooth. Whether that takes the dentist ten minutes or two hours is irrelevant. The price doesn't change.***
>
> ***The same thinking needs to be applied to the delivery of architectural services. Price your services based on the value that you bring, the institutional knowledge you have, the technology you can leverage, and the quality of your talent. Don't price your services based on the number of hours. Your ability to deliver projects quickly is a premium to clients that they will pay for. Charge strictly on time, and you're taking money out of your pockets.***
>
> ***IBM doesn't do business by selling hours. They have an intellectual capital system that is constantly fed by its employees. It's filled with case studies and full details on the expertise of IBM employees. So now if clients have a problem anywhere on the planet, within five minutes you could get an IBM expert on the phone to help. Think of what power that gives IBM to charge fees. They are delivering the highest value to their clients. Their fees are higher than anybody else's, and they get them. They get them because they are not selling hours, they are selling absolute speed of delivery and the knowledge built up from years and years of feeding their intellectual capital system.***
>
> ***Sell only on a value basis and fully abandon the tactics of selling time. Be bold enough to turn away clients who refuse lump-sum agreements. Those that do will not only prosper, but will also change to become consultants more than just plain old design firms.***

This applies to additional services also. In a simple example, if a Big Mac were ordered at McDonalds, then as the customer were about to leave he decided that he would like fries with that; its generally no problem – as long as he pays for the fries. There is no expectation that the customer should get the fries just because he asked for them, there is no implication that fries should have been included because most folks get fries with their Big Mac – the customer simply pays for the added value. When a client requests services beyond those defined in the contract, the architect should be appropriately compensated.

Understanding that an architect's services are more valuable than the cost of delivering the service is an essential step in being fairly compensated.

About the Author:

David B. Richards, AIA, LEED AP, PMP is the Chief Operating Officer and a Principal of ROSSETTI, an international leader in sports architecture design. David is the Chairman of the AIA Best Practices Committee, a member of the Practice Management Knowledge Community Advisory Group and a contributing author to the Architect's Handbook of Professional Practice, 15th Edition.

NEW LOOK AND NEW ORGANIZATION FOR THE AIA BEST PRACTICES

AIA Best Practices represent the collective wisdom of AIA members and related professionals. As a group, they are; a compendium of relevant knowledge gained from experience; immediately applicable to a task at hand; distilled to their essentials; usable information; linked to related resources; kept relevant and up-to-date by inviting feedback from practicing professionals. The scope of knowledge and information that can be included in AIA Best Practices is unlimited. The collective knowledge of AIA and allied members is a realm that is constantly expanding.

The Best Practice Committee (a sub-committee of the Practice Management Knowledge Community Advisory Group) Chaired by David Richards, AIA has implemented a project to arrange the Best Practices to relate closely with the recently published 15th edition of the Architects Handbook of Professional Practice. All of the Best Practices have been reviewed, renumbered, re-referenced and reformatted to look like the AHPP 15th Edition. The renumbered Best Practices are arranged so that the topics discussed in the Best Practices are similar to the topics in the AHPP. The all new Best Practices are now available for use on the AIA.org website.

Special thanks to the committee - Eric Anderson; Matthew Bartner, AIA; Michael Chelednik; AIA, Karen O. Courtney; AIA, Randy Lewis, CPCU; Michael Lough; Donald C. Simpson, AIA; Michael A. Webber; John D. Wilder II, AIA; John R. Williams, AIA; David Richards, AIA and to the AIA staff led by Virginia Ebbert- for all of their efforts on this project.

NEW BEST PRACTICES

Everyone knows what a Principal is: a strong performer in a firm leadership and stewardship role, and most likely a primary business development and client relations person. Typically, it refers to a stock ownership level, but not always. How we define "strong performer" and "leadership role," however, has evolved over the years. This new Best Practice by Kathryn Sprankle considers the commonly recognizable hallmarks of "Principalship": www.aia.org/practicing/bestpractices/AIAB105493.

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