AIA Best Practices:
Starting a firm: lessons from failure

Contributed by Peter Piven, FAIA, and Bradford Perkins, FAIA. Excerpted from Architect's Essentials of Starting a Design Firm.

Summary

One can start an architecture firm in two clear-cut ways: make common and totally avoidable start-up mistakes (the hard way) or learn from the mistakes of others (the easier way). Both methods have the potential to offer extremely valuable lessons in business management to the attentive entrepreneur.

Learning the hard way

Arguably, there is no better education than one obtained from the school of hard knocks. Painful mistakes, often seared in one's memory, may permanently alter general behavior or specific response to similar future circumstances. There is a shortcut, however, to such hard-won wisdom: learning from other people's mistakes. The challenge is to absorb the lessons as humbly and as completely as if one has had the experience oneself. The advice below is based on common characteristics of successful architecture firms, gleaned from many years of observing both successful and unsuccessful firms.

Strive for excellence in both design and business management. To achieve success, an architecture firm must be skilled at both the professional and business aspects of architecture. A firm must market itself well, excel in architectural design, provide consistently outstanding service to clients, and manage both design projects and the business equally well. The alternative is bankruptcy.

Know thyself. Regularly conduct a realistic self- appraisal. A successful firm establishes clear goals, realistically assesses its strengths and weaknesses, and outlines logical steps to build on its strengths and overcome its weaknesses.

Stick to the plan. You can fly by the seat of your pants—and many do—but you will increase your chances of success by developing and executing a realistic business plan. A strong reputation is built through momentum, which must then be maintained. Expansion into new areas of business should be based on a firm's strengths, in accordance with a plan to overcome weaknesses.

Remain flexible. Markets are dynamic, not static. Firms must be willing to change to remain viable. Though a business development plan needs to be maintained and executed over a period in order to produce results, it should be regarded as a foundation from which one draws the strength, confidence, and experience to take calculated risks and enter new markets.

Organize well. The organizational structure of a firm must support the load it is intended to carry. Many firms fail not for a lack of technical or design skill but because the firm is not organized to be responsive to the market or the clients it serves. The one- or two-leader firm is particularly vulnerable. Too much decision-making authority concentrated in too few hands quickly leads to paralysis.

Attract and retain key staff. Your principal assets walk out the door every night. Create an organizational structure that will attract and retain the best available person in each position. Remember that the night sky is enriched, not diminished, by the presence of more than one star. Each major position should be held by a specialist who is recognized and rewarded based on a unique contribution to the total success of the firm.

Do not be afraid to take on additional partners, officers, or principals. Choosing suitable individuals for leadership positions usually increases the size of the financial pie and the quality of the service offered.

Plan early and often for succession and transition. A succession plan is not something to think about just before the firm principals retire. A clearly articulated succession plan gives entry- and mid-level employees incentives to work harder and to remain with the firm because they can identify their own futures with the future of the firm. It also fosters a climate of leadership development, preparing successors to fill any voids left by departing leaders.

When hiring, insist on the best. Given the narrow profit margins of most architecture firms, it is imperative to spend funds on the most productive, best available personnel. Apply the "Why not the best?" principle to all hiring decisions and performance evaluations. In turn, failure to remove nonperforming or underperforming employees can have serious financial consequences. This is not to suggest a "hire and fire" philosophy or a hostile 'sweatshop" work environment. Rather, keep in mind that your best employees have the most options available to them, and unless they have good reason to remain with your firm, they are likely to exercise those options.

Manage payroll costs carefully. Wild swings in work volume can be among the most difficult management challenges for an architecture firm. But because personnel costs constitute almost two-thirds of expenses for most architecture firms, management of payroll costs must be the primary focus of financial control. Cutting other expenses in lean times will not be enough to stanch the flow of red ink. Lighten your management burden by inculcating an entrepreneurial spirit in your employees, so that they understand that they share the responsibility—and the reward—of bringing in business.

Manage finances conservatively. Profit margins are narrow; there is no room for profligacy with personal or unnecessary business expenses. An architecture firm must make money to grow and prosper. To consistently make a profit, a firm must balance expenses with the volume of work.

The building industry is cyclical. A firm must maintain cash reserves to weather the lean times. Business development activities, project scheduling, and staffing must be coordinated and continuously balanced. The closer a firm comes to achieving a consistent balance, the more likely it is to consistently make a profit.

Past performance is no guarantee of future profit. Strict adherence to these precepts may not guarantee success, but it can greatly improve the odds of success. Ignore them at your own risk!

About the contributor

This article is excerpted and adapted, in part, from Architect's Essentials of Starting a Design Firm, by Peter Piven, FAIA, and Bradford Perkins, FAIA. Written by two leading experts in the field, this valuable resource addresses all aspects of starting and maintaining a successful design firm.

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Section 02 – Entrepreneurial Practice: Starting an Architecture Firm