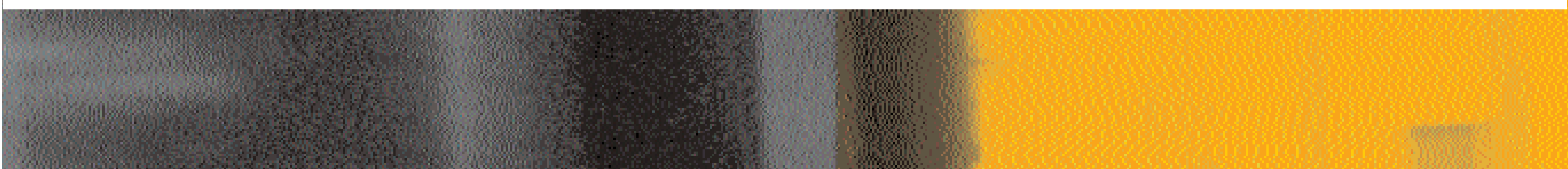
FEATURES

Lessons from the best-managed firms

Small, medium, and large

Which size is ideal for the future?



VISUAL CONCEPT/PHOTOMONTAGE AND PHOTOGRAPHY: © LOOKINGLATELY, NEW YORK/ZURICH

By Jane F. Kolleeny and Charles Linn, FAIA

In this final installment of our three-part series on firm size, we're looking ahead. Several experts tell us how they believe globalization and the information age will drive changes in firm size in the future. We also explore the effect that computers and the Web have had in leveling the playing field between large and small firms, and we examine what happens to a firm's size as the company matures and one generation succeeds another. Finally, we speculate on how a possible shortage of architecture grads could affect our profession in the future.

How experts predict firms will morph in the 21st century

The rate of change in our world has been pushed to a furious pace by technical innovation. How will size affect the evolution of the architectural firm? Frank Stasiowski, FAIA, president and founder of PSMJ Resources, predicts that the profession will be turned upside down. Architects will continue to outsource more and more of their contract documents to production houses overseas, where they can be done for a fraction of what they cost here. Eventually, he says, even these workers will be replaced by "highly evolved, user-friendly computer tools. These will render such practitioners useless in a self-service design environment." This would shift what architects offer their clients away from creating a product—drawings and specifications—toward being service providers: Architects will produce information and trade in intellectual capital.

Stasiowski tells us "not to rely on the traditional subcontracting model in the future … emphasis will shift to a fluid organization of consultant/project specialists who come together in targeted teams." He sees a future where many offices will be virtual. Firms may have a storefront, but a physical desk for employees will be neither necessary nor desirable. "Look for laptop-size or smaller devices to become the next office. Itinerant knowledge workers who gather quickly anywhere in the world to accomplish projects will put an end to the traditional workplace. In this arrangement, the individual becomes the company, representing it everywhere," he continues.

Not everyone agrees. Hugh Hochberg of the Coxe Group recalls that 20 years ago visionaries predicted that the firms we've described in our series as medium and large were on the verge of extinction. According to Hochberg, those futurists believed that "advances in technology and the associated costs, larger projects, increased project complexity, the need to bring more resources to bear on each project, and globalization spelled doom for firms roughly defined as those with 35 to 100 staff." Instead, many small firms grew into medium-size practices during the building boom that occurred late in the 1990s and have prospered since. According to the *AIA Firm Survey for 2000–2002*, firms with 20 or more employees have steadily increased from 5 percent of firms in 1990 to 13 percent of firms in 1999. Some of the growth has been through mergers and acquisitions and some has been through hiring staff. Large firms have gotten larger, notwithstanding the very recent economic dip.

Hochberg and his Coxe Group colleague Peter Piven, FAIA, spin the future a bit more conservatively than Stasiowski. They believe the future is bright for firms of any size, partly because clients like to hire architects that mimic their own size and temperament; for example, corporate clients are attracted to large, corporate architectural firms, although we observe that occasionally such clients will hire a small, well-known firm for its "star appeal." Modest-size clients often prefer relationships with small firms because they can provide more personalized service. Hochberg and Piven also note that "technological advances will allow increased effectiveness, communications, and project exploration for any size firm, and technology itself is becoming increasingly more cost-effective."

Wired and getting more wired

It seems reasonable to think that Hochberg and Piven will be right in the short term, but that in some cases reality has already tilted toward

Part III

THERE IS NO "OPTIMAL" FIRM SIZE. THE KEYS TO SURVIVAL ARE TO BE FOUND IN PERCEPTION AND PREPARATION.

Stasiowski's predictions. One thing we can say for sure is that the profession has computerized more thoroughly and rapidly than anyone would have thought possible 25 years ago. Our Gen-X architects-in-training exploit the opportunities presented by technology much more readily than managers born in the Baby Boom years, who became architects well before e-mail, the Web, cell phones, handheld organizers, and CAD were common elements in the workplace. Piven says, "What technology has fostered is higher quality, ease in dealing with repetitive situations, and greater complexity." He's right. Once-technophobic 40+-year-olds from firms of all sizes have become inseparable from their laptops. According to Zweig White's 2001 *Principals, Partners and Owners Survey*, 41 percent of principals reported using a laptop, up from 22 percent in 1997; 65 percent of principals have remote access to their computer network, up from 58 percent the previous year; and 89 percent of principals have a cell phone provided by their company, a trend that has more than doubled from 40 percent 10 years ago.

What the Internet and personal computers have done is leveled the playing field, making extremely sophisticated technology available for low cost among firms of all sizes. Large firms have the financial resources to build a significant digital infrastructure and to research new tools for design and practice management, but small firms can gain worldwide exposure on the Web. Jennifer Greene, marketing director of Kliment Halsband Architects, New York City, with 35 employees, says, "We've had a Web site for a long time that we constantly refer people to; they see a catalog of visual images. For a modest-size firm, it looks quite good." Of our 52 surveyed firms, only three did not have Web sites.

While costs for equipment have continued to decline, software is still expensive, as is the cost of the necessary personnel to purchase, assemble, train staff to use, and manage in general the digital tools of an office. Indeed, for the 40 respondents to our survey, costs associated with IT staff and equipment averaged 4 percent of firm revenue—a healthy chunk. Most firms told us their dedicated IT managers spend most of their time on general problem-solving, troubleshooting hardware, translations of files among incompatible software programs, and virus checking and monitoring.

Smaller firms are at a relative disadvantage when it comes to finding and hiring people to maintain computers and train staff. They do it by hiring part-time consultants or by having the firm's tech-savvy staffers devote most of their time to this area. Scott McElrath of Dangerous Architects, in Chelsea, Michigan, with 5 on staff, points out that "the technology learning curve is steeper in a small firm as there are few peers with which to discuss the latest information."

Centerbrook Architects, in Centerbrook, Connecticut, with 75 employees, has found that the best people on CAD are the architects themselves, who don't particularly want to spend their day training others but want to design projects. They have taken an innovative approach, with a program they call ERIC. Jim C. Childress, FAIA, says, "ERIC means 'emergency response in CAD' " and was named after an employee. "We designate one of the better CAD operators each day to be ERIC and for that day they are responsible for helping anyone with CAD problems. This spreads out the responsibility and also, with time, assures that CAD knowledge will grow and be disseminated throughout the office."

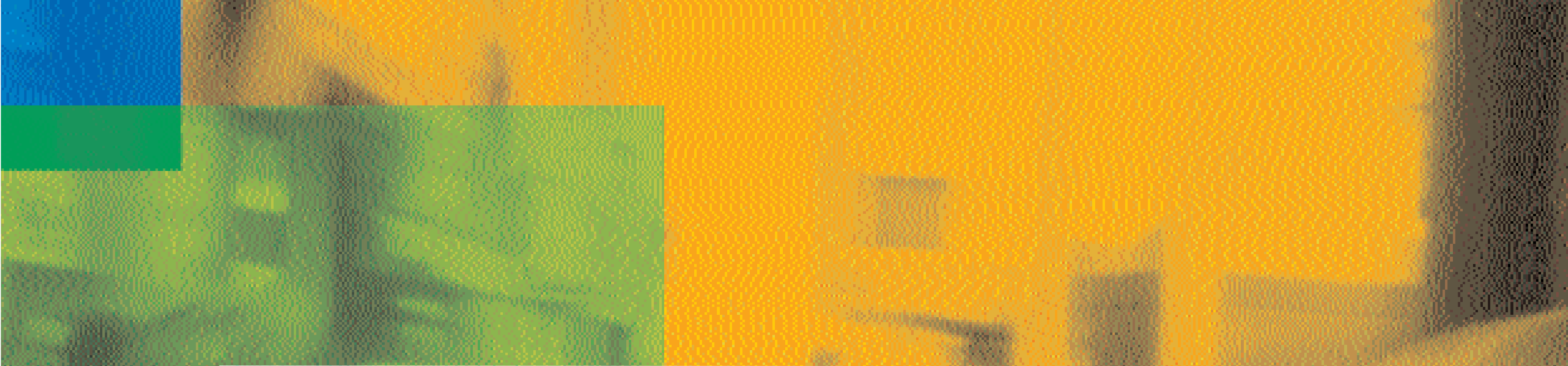
How firm size affects ownership transition

Whole volumes have been written about what is required for adding new principals to a firm, as well as accomplishing successful ownership transitions. According to PSMJ Resources consultant Sandy Blaha, "Leadership transition is usually a three- to 10-year process that involves the selection of likely candidates, capacity building, and gradual testing and advancement of a visionary entrepreneur." It takes employees years to absorb a firm's culture, to establish relationships with its clients, and to learn to manage. It cannot be accomplished by simply adding newly minted architectural graduates.

Beyond this, the most important factor for small- and medium-size firms planning an ownership transition is the employment of talented people whose beliefs and values are compatible with those of the current owners. Stephen Kliment, FAIA, editor of *Principal's Report*, says,

COMPUTERS AND THE WEB HAVE LEVELED THE PLAYING FIELD BETWEEN LARGE AND SMALL FIRMS.

"Succession in a small firm (1 to 19 employees) is linked tightly to the outlook, values, and personality of the founding partners, especially if the firm has not expanded significantly and is still subject to the sway and whims of the founding leadership." Indeed, a firm like this might not move forward into a succession plan because, Kliment says, "the leaders of such a firm are likely to balk, if not actually be alarmed, fearing the value they brought with them at the founding will be diluted or atrophy under new leadership." In



addition, the smallest firms may not have enough assets to make an ownership transition worthwhile for its employees, who may feel they're better off starting from scratch.

A medium-size firm (20 to 49 employees), which may have three to five partners, is more likely to have the means for succession. Although firms of this size may not have been around as long as some of the larger firms, many have partners of different generations who have risen in the ranks over time, making transition more feasible and the extension of responsibility to others more natural. They also may have physical assets, a client base, culture, and reputation—even the firm's name may be established as a brand and carry its own equity.

Of the 52 firms we surveyed, about half have leadership transition plans, and most of these are among the large and extra-large firms. Those that are large (49 to 150) often have strong leaders who combine their personal management strengths with the efficiency and structure of corporate environments. Many are old enough that ownership transitions have occurred before and succession policies have had a chance to evolve enough so that those involved know what to expect.

Some large firms are moving away from the kind of structure that depends on a few senior partners to broader-based ownership. For example, in 2001, Cooper Robertson Partners (CRP), in New York City, with 75 employees, implemented the firm's first ownership transition plan. "The firm consisted of seven partners prior to 2001 but now has 25 owners with various percentages of ownership. As part of the transition plan, CRP instituted a new studio system, consisting of two studios, each run by a studio head and assisted by a business, market, and technical lead, mostly staffed by the new partners," says principal Karen Cooper. While just under a year into the transition, workers say that transferring much of the decision making to the studio level has improved work process and product.

Many extra-large firms are market-driven. The rules about planning for ownership succession and nurturing future leaders still apply, but the ability of the firm to manage its finances, its success in marketing, and the health of its markets may have just as great an influence on its ability to survive into successive generations as who is leading it.

Are there enough architects to go around?

No matter how brilliantly a firm's managers structure their succession, they have to have someone to pass the business to. But there are fewer successors than might commonly be believed. According to the *2000–2001 NAAB Survey*, there were 2,773 B.Arch. degrees and 1,750 M.Arch. degrees awarded in 2001. Based on AIA's estimates, there are between 20,000 to 22,000 architectural firms in the U.S. If each of these firms could have an equal portion of the graduates available (and also assuming that humans are divisible), each could have about 13 percent of a person holding a bachelor's degree from this class, and about 9 percent of a person holding a master's degree. Of course, cutting people into fractions is absurd, but the statistics highlight one of the misconceptions of our profession, that colleges produce too many graduates. In fact, we saw in the late 1990s that there were not enough graduates to go around.

In addition, many talented architecture grads are pursuing alternate career paths. Management consultant Kerry Harding, president of The Talent Bank, which focuses on architecture, talks about who besides architectural firms are hiring architects. "The large management consulting firms like these young architects because they're great problem-solvers, they listen and communicate well, and they're quick studies." He continues: "Some of the top design talent is migrating to the West Coast to work for entertainment companies that do computer animation, like Pixar, who did *Toy Story*, and Industrial Light and Magic, George Lucas's company that did *Star Wars*. The 3D modeling skill learned in architecture school is merely a means to an end in an architectural firm; at these companies, it is the end product—and they often get paid triple the salary!" With as many as half of all architecture graduates moving into nontraditional career paths, it seems possible that there may be a professionwide brain drain in our future.

AS GRADUATES PURSUE OTHER CAREERS, COULD THERE BE A BRAIN DRAIN IN OUR FUTURE?

The beauty of architectural practice: no size fits all

After all of the study we've done on firm size while preparing this article, it seems to us that the firms that always survive and prosper in changing times are not distinguished by their size. Rather, they are those that are managed by principals who quickly perceive what is changing about the world around them and adapt to it nimbly and intelligently. One of the great things about our profession is that it can be successfully pursued by firms of all sizes—small, medium, and large. ■