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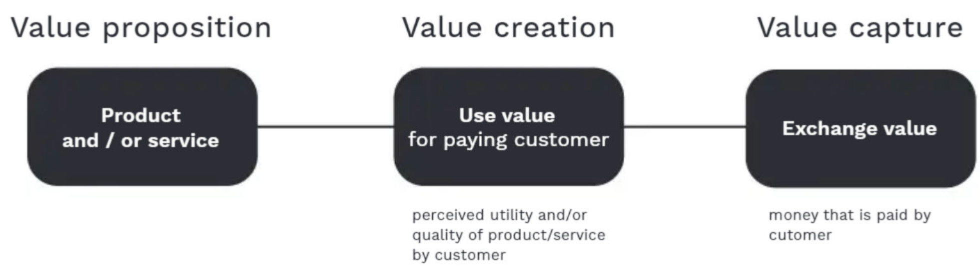
The role of value in architects' labour

by Marina Bos-de Vos

It is no news that it is challenging to run a financially successful architecture business. Clients do not always need or value the full spectrum of services an architect wishes to provide, making it increasingly hard to negotiate a profitable fee. It is not only market conditions that lead to challenges. Challenges also originate from within the business model of the architecture firm itself.

and services in each project, work for different types of clients, and it is difficult to assess the worthiness of the proposed use value upfront. After all, a design still has to be made. Moreover, architects are trained professionals and their work is governed by professional norms and guidelines.

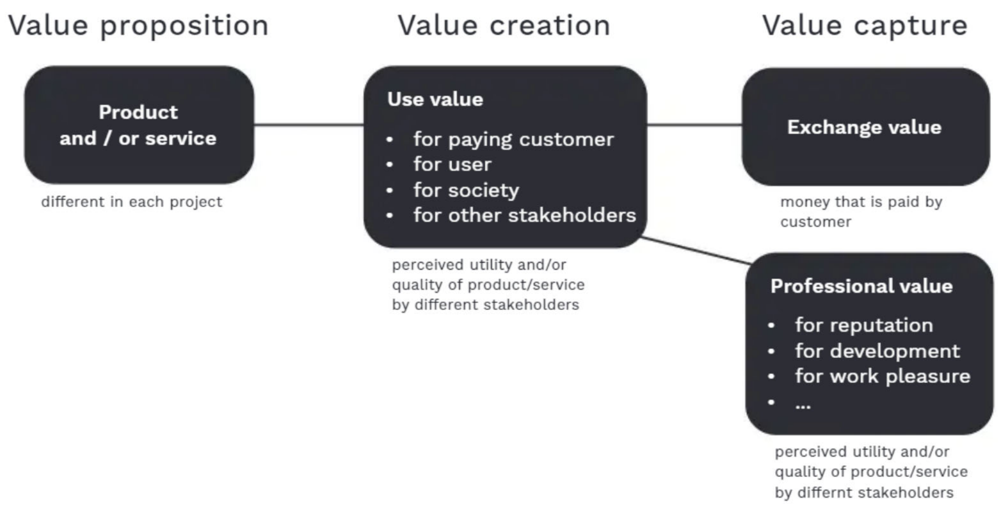


The business model
Each business model revolves around value. A business model explains how value is proposed, created, and captured by firms. With a value proposition, a firm offers a product, service, or combination of the two which has a certain quality or utility the customer is willing to pay for. In other words, the firm proposes 'use value' to the paying customer. This use value can be realised by the firm through performing activities, using the right resources and, if necessary, collaborating with partners. In this entire process, value is created. This is why the process is referred to as the process of value creation.[1] In return for the (to be) realised use value, the firm receives what is in the literature often called 'exchange value'.[2] This is the monetary value the firm acquires from selling the proposed product and/or service in the marketplace. This monetary value is appropriated by the firm resulting in income and, ideally, a profit. This process is referred to as a process of value capture. A suitable revenue model and cost structure are key for enabling value capture. For many firms, such as manufacturing firms, IT firms, and entrepreneurial firms, this is how their business model in essence works. They have one business model at the core of their business, one clear customer group or client type that they work for, and they try to optimise profit, for example, by increasing efficiency.

The business model of architecture firms
The business model of architecture firms is much more complex. Architects offer different products

They do not only serve a paying client, but also many other stakeholders, including users, governments, the natural and physical environment, and society at large. As such, they may propose a certain use value to their paying customer/client, but also have to take into account that value needs to be created for and even together with many other stakeholders. This results in a much more complex and dynamic process of value co-creation. Moreover, besides capturing financial value, architecture firms also need to capture, what I will refer to as, 'professional value'.[3] Interviews with Dutch architects revealed that firms are particularly keen on 1) establishing and maintaining a good reputation; 2) developing their expertise and collaboration opportunities; and 3) generating work pleasure. These three elements are all examples of professional value. Just like many other types of professional service firms, such as advocacy and accountancy firms, a reputation is core to attracting new clients and talent (as well as keeping existing clients/employees); development is crucial to stay up to date and distinguish oneself from competitors; and the expertise and experience of firm owners and professional workforce is the key resource that needs protection. A satisfying job is of critical importance to remain in business and avoid organisational members from leaving the firm.

Value tensions in the architect's business model
Tensions in the architect's business model arise both in the value creation and value capture stages.[4] In the value creation stage, different stakeholders may need



(previous page) **1.** Diagram illustrating the traditional business model (this page) **2.** Diagram illustrating the business model of an architectural firm **3.** The means justify the means: what would a new set of values for the 21st century look like? (opposite page) **4.** Proposed board game/toolkit originating from the scientific research project FuturA. Design by Eric de Waal (Studio de Waal)

or desire different kinds of use value. For example, the paying client may be interested in a unique award-winning building, while the owner of the building is primarily interested in easy maintenance and endurance, the users of the building value safety and comfort, and the neighbourhood would benefit from a building that matches with the surroundings. Of course these values do not necessarily need to conflict, but in many cases they do. Imagine, for example, that maintenance requires having the rainwater drainage in sight, which would compromise the aesthetic quality the client (and architect) is looking for.

Tensions may also arise in relation to value capture. Firms often find themselves torn between realising financial profit and capturing professional value. For example, certain projects or clients may be financially attractive but can be a risk to the reputation of a firm or the work satisfaction of the people working there. Alternatively, projects may provide a great boost to a firm's reputation or be super exciting to work on but can require substantial investment.

Strategies for dealing with value tensions

A study of multiple housing projects in the Netherlands, including both architect and client interviews,[5] showed that architects have a particular way of dealing with the value conflicts described above. The data revealed strategies by which architects tried to maximise the capture of professional value at the expense of profit or sometimes even their clients' perceived use value. For example, architects provided unsolicited services or increased the time spend on a project to ensure high-quality designs and refrained from (re)negotiating a suitable fee with the client. They wanted to protect their reputation and did not want to upset the client, while clients in some cases were astonished that architects did not take a more entrepreneurial approach. These examples show that, in many cases, architects prioritise the capture of professional value over the capture of financial value. We also found that the perceived use value of a client was sometimes overruled by what architects considered important in terms of professionalism, such as realising more aesthetic quality with an eye on the quality of the built environment, or conforming to the needs of the people who would actually use the building. Here, use value of certain stakeholders was prioritised over the use value of other stakeholders in the value creation process, often resulting in architects performing work and spending time that was not paid for, and thus also impacting the financial value they were able to capture as a firm. The value trade-offs that firms made in both the value creation and value capture process were all secondary to the significance of professional value to the firm.

Value slippage management

The strategies described above do not only reveal value tensions and responses to them, they also reveal value slippage and how this is managed within and across projects. Value slippage occurs when value is captured by project partners or other stakeholders instead of the firm itself. Originally, value slippage is seen as the slipping away of financial revenues from the firm. As such, it's argued that it is detrimental for a firm and needs to be avoided at all times. However, what can be seen in the field of architecture is that financial value slippage happens quite often and may even

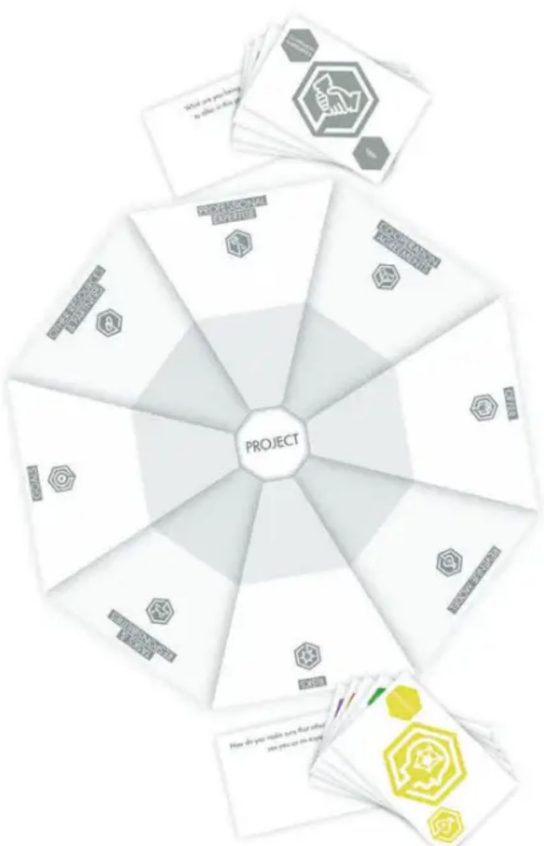
Notes

1. D. P. Lepak, K. G. Smith, and M. S. Taylor, 'Value creation and value capture: A multilevel perspective', *Academy of Management Review*, vol. 32, no. 1, 2007, pp. 180-194.
2. C. Bowman and V. Ambrosini, 'Value creation versus value capture: towards a coherent definition of value in strategy', *British Journal of Management*, vol. 11, no. 1, 2000, pp. 1-15.
3. M. Bos-de Vos, J. W. F. Wamelink, and L. Volker, 'Trade-offs in the value capture of architectural firms: the significance of professional value', *Construction Management and Economics*, vol. 34, no. 1, 2016, pp. 21-34.
4. See also the video, *Value Conflicts in Creative Businesses*: https://youtu.be/-o5kGgSL6b0
5. A. Osterwalder and Y. Pigneur, *Business model generation: a handbook for visionaries, game changers, and challengers* (Vol. 1), Hoboken NJ, John Wiley & Sons, 2010.
6. M. Bos-de Vos, L. Volker, and J. W. F. Wamelink, 'Enhancing value capture by managing risks of value slippage in and across projects', *International Journal of Project Management*, vol. 37, no. 5, 2019, pp. 767-783.
7. I. Rozentale and P. J. van Baalen, 'Crafting business models for conflicting goals: Lessons from creative service firms', *Long Range Planning*, vol. 54, no. 4, 2021.
8. M. Bos-de Vos, 'Open for business: Project-specific value capture strategies of architectural firms', *Architecture and the Built Environment*, vol. 13, 2018, pp. 1-234.

be beneficial.[6] Firms may accept to work for lower fees than adequate, provide more work than paid for, or even perform unpaid work. They do this with the intention to gain, increase or protect professional value. For example, many, especially young firms, invest in projects to make a name. Financial value slippage is in this way accepted and perceived as beneficial in the long term. Many architects we spoke to were indeed able to, over time, build a reputation in a specific domain because of their initial acceptance of financial value slippage. Years after the period of devoting all their time and energy to unprofitable projects, they acquired important and exciting projects. They compensated for the loss of financial revenues in earlier projects with later projects. Other firms worked on different types of projects simultaneously (i.e. financially attractive and professionally attractive projects) to reach both financial and professional goals, something that is known as cross-subsidising.[7] Here, a loss of financial revenues in one project is compensated with a higher financial revenue in another project. Both situations, of course, come with risks. In the first case, it requires huge investment (not only financially, but also on a personal level) while it is unsure whether there will ever be the possibility to reap the benefits. It might also be difficult to raise fees for clients once you have started off doing projects relatively cheap.

To minimise such risks, we found that in certain situations where it is not possible to prevent the slippage of financial value, such as in the period of working on a tender, firms were able to recoup the loss of financial revenues by negotiating a bigger role or bonus in subsequent phases of the project, once it would continue. In this way, firms initially accept that financial value will slip away but try to ensure that they can reverse it over time. In other words, they postpone their financial revenues in a project. These examples all show how risks related to financial value slippage were consciously accepted by firms and mitigated across project phases or different projects.

Perhaps not surprisingly, when professional value is at risk of slipping away, the response of firm appears to be totally different. We found that firms often do not engage in potentially profitable projects, because they foresee that they might result in reputational damage, a decrease in work pleasure or simply not enough development. Firms sometimes even stop an ongoing project when the project endangers the capture of professional value. This happens, for example, when employees are bullied during projects or the expertise of the firm is not followed, leading to all kinds of unacceptable situations, such as projects that do not comply with building regulations or the quality criteria upheld by local governments. It demonstrates that when the professional value for the firm is at risk of slipping away, firms do everything in their power to avoid this, even if it means severely disappointing a client or temporarily not generating any/enough income.



Value modelling tool designed for architecture firms

For understanding the business of architecture firms and finding ways for how a particular firm's business can be optimised, it is of crucial importance to take into account the diverse values that play a role for different stakeholders, the tensions that (may come to) exist between them, where (and what) value may be at risk of slipping away, and the risks associated with that. Professional value for the firm itself plays a hugely important role for all these aspects and should not be overlooked. Many existing business tools and approaches, such as the business model canvas,[5] do not take professional value into account as they are not specially oriented at firms, such as architecture firms, that have other values as core drivers behind their business model. This is why we developed a tool that allows firms to consider the many diverse values that play a role for themselves, their client, and other important stakeholders, explore where value tensions and value slippage may occur, and how to deal with that. The tool is based on evidence from a four-year scientific study[8] and has been developed in collaboration with and is used by the Royal Institute of Dutch Architects, multiple firms in the Netherlands, and the TU Delft Faculty of Architecture and the Built Environment. For more information about this tool, the research behind it, and how it can be used, visit: https://books.bk.tudelft.nl/press/catalog/book/isbn.9789463660242.