When Bigger is Better

LESSONS FROM AMERICA'S LARGEST FIRMS

DOES SIZE MATTER? A SURVEY OF "VERY LARGE" FIRMS INDICATES THAT ECONOMIES OF SCALE NEED TO BE BALANCED WITH CREATIVE MANAGEMENT PRACTICES.

by Philip Langdon

You can sense the discomfort in some circles whenever the subject comes up: big firms and their growing share of the profession’s work. American architecture, as a segment of the arts, has always venerated resourceful, brilliant (and, when necessary, stubborn) individuals: Richardson, Sullivan, Wright. They not only made it, but had the courage to keep growing, thus setting the example for all. But American architecture is also a business, and an increasingly collaborative one. No matter how often critics present the inspired individual as the source of lasting architectural achievement, the reality is that American architecture is increasingly the province of very large firms—those with 200 or more employees and billings in the tens or even hundreds of millions of dollars.

The AIA Firm Survey hints at the change. “The proportion of AIA member firms with 20 or more employees has almost doubled since 1990,” says Kermit Baker, the AIA’s chief economist. “In 1996, for the first time, we had enough firms of 50 or more employees to break them out as a separate category.” Firms with 50 or more employees, which comprise 2.5 percent of the nation’s architecture firms, now collect over 38 percent of the profession’s billings. Billings per employee are much higher in big firms than in small ones. The average firm reports $65,000 of billings per employee; in firms of 50 or more, that figure shoots up to $95,000.

Though the AIA survey lacks a category for “very large” firms, it is these that seem to be expanding the fastest, and becoming an increasingly powerful segment of the profession. “Over the course of a century, large firms are getting larger, and there are more large firms,” says Robert Gutman, Princeton University’s longtime analyst of architectural practice. “McKim, Mead and White was a very big firm at the turn of the century, when it had about 100 people. Albert Kahn had 200 to 300 in the 1920s.”

According to figures supplied by the firms themselves, Hillier Group, A. Epstein & Sons International, and HKS each have about 400 employees; DLR Group has about 500, RTKL has nearly 600, SmithGroup has over 600, NBBJ, Ellerbe Becket, and Leo A Daly each have 700 each, SOM about 800, Gensler over 1,400, and HOK and HNTB over 2,000 employees each. The degree of concentration on architecture ranges widely. HNTB says 206 of its employees are architects, while Gensler has 410 architects; HOK employs the most architects of any U.S. firm: 842.

Fewer and larger practices

“Architecture still doesn’t have a Microsoft equivalent or a General Motors equivalent,” says Ed Friedrichs, president of Gensler, the San Francisco–based architecture and interiors firm. Nor has architecture achieved the concentration of a profession like accounting, with its “Big Six.” But the design field is gravitating toward fewer and larger practices. “You could equate us more to law firms,” offers Friedrichs, noting that “there’s been a lot of consolidation in that profession.” “The big firms are gobbling fast,” says Herbert McLaughlin, a partner and director of design for Kaplan McLaughlin Diaz, a 190-person firm in San Francisco. When a firm’s leaders or founding principals are in their 60s, he observes, it may be easy pickings for a bigger firm that has both the wherewithal to make an acquisition and a desire for the greater geographical reach or additional forms of expertise that an acquisition can bring.

Some, like DLR (founded in Omaha in 1966 as Dana Larson Roubal & Associates), have acquired firms in other cities and allowed those offices to operate as relatively autonomous enterprises. It was only last year that all 15 offices under the DLR Group umbrella changed their names to that of the holding company. Other firms have steered more in the direction of HOK’s “one-firm philosophy,” attempting to shape their acquisitions into a single, highly integrated organization.

Acquisitions and mergers are just one source of the profession’s growing concentration. “Gensler has never acquired a firm,” says chairman and CEO Art Gensler Jr., FAIA. “We’ve grown internally.” Some
GENSLER: "A LEARNING ORGANIZATION"

"In the past we focused on our clients’ projects one at a time," says Ed. Friedrichs, president of Gensler. "They each had a beginning and an end." Today the San Francisco-based firm, best known for its interiors work, finds that its assignments tend to flow together and stretch far into the future. The clients, many of them companies occupying buildings not only in the United States but throughout the world, are erecting, altering, and updating facilities continually; they want Gensler to help devise an overall strategy for handling their needs. The organization, Friedrichs explains, sees itself as a partner with the big businesses it serves. Its work, he adds, has gone from being "transaction-driven" to being "relationship-driven."

Since its start as a three-person practice in San Francisco in 1965, Gensler has grown into a 1,450-person firm with 13 offices in the United States (from Los Angeles to Boston), as well as offices in London, Hong Kong, and Tokyo. "Being diversified geographically means we don’t have to bet the company on one city or one location," says chairman and CEO Art Gensler. "There have been times when one office went well and another office went in the tank. We share work."

Repeat work for big clients is a major source of Gensler’s billings, which reached a record $170 million in 1997, up 30 percent from the year before. So, for example, has had Gensler work on a new studio in Culver City, California, an urban entertainment center in San Francisco, a 13-screen theater complex near New York’s Lincoln Center, and small screening theaters (for Sony’s corporate review of movies) in Tokyo. Gensler’s work for the clothing retailer Gap, Inc., has gone on for three decades. "Our relationships," Friedrichs says, "have really facilitated our growth."

Projects are typically handled by "studios"—groups of as few as 12 to 15 staff members or as many as 30 to 50, who work together on a variety of projects. The premise of the studio system, Friedrichs explains, is that "people who know one another well are likely to produce better results for a client." Kevin Hart, a director of design in the San Francisco office, points out an additional advantage: "Studios are very helpful at making large firms easier to handle for young employees and new employees. If you came to Gensler, you would be joining an office of more than 200 but a studio of 20 to 30. That’s your ‘home room.’"

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Locations: Atlanta; Boston; Chicago; Denver; Dallas; Detroit; Newport Beach; Calif.; Parsippany, N.J.; San Francisco; Washington, D.C.; Hong Kong; Tokyo.

Growth is the result of opening multiple offices across the U.S. and overseas. More and more architecture firms have “not three or four offices” but “six or eight or ten,” says Jerome Sincoff, FAIA, president and CEO of HOK. “That in itself makes firms larger.” HOK now operates 15 offices in the United States and nine in other countries.

Firms establish multiple offices not only to get business in new territories but also because their clients have far-flung operations and want their architects close at hand. Larry Self, HOK’s executive vice president, says, “Our clients want the comfort and confidence of knowing that their American architect is going to provide the same quality service in Prague or Shanghai—or any point on the globe—that they get in the U.S.”

Going global
The globalization of trade, which has been official U.S. policy in Republican and Democratic administrations alike, has also spurred consolidation in the architectural profession. Most small firms cannot afford to pursue overseas work; this is mainly the big firms’ turf. The AIA found in 1996 that international work, which had risen to $625 million annually, was being done by just under 10 percent of American firms. But international work was being carried out by more than 50 percent of firms that had 50 or more employees. Many businesses, in fields ranging from publishing to automaking, are evolving into “boundary-spanning” organizations that have enormous appetites for construction, renovation, and management of facilities—propelling the growth of big firms. “If you’re any good at all at what you do and you work for large clients who are at the top of their businesses, it’s almost inevitable you will grow,” explains Paul Nakazawa, a management consultant with Pearson Egan Nakazawa in Wellesley, Massachusetts.

From a big-business perspective, it’s easier to work with one very large architecture firm than with several smaller ones. Large firms tend to have a businesslike attitude, substantial liability coverage, and a high likelihood of remaining in existence from one decade to the next. Conversely, the smaller the firm, the greater the chance it will disappear. From 1990 to 1996 the number of AIA member firms declined to 15,000 from 17,000.

As a firm becomes large, it can afford state-of-the-art technology and experts, reinforcing its power to outdistance the majority of small to midsize competitors. Architectural information system managers, who run highly sophisticated, interlinked computers, command “very high salaries,” says Robert Hillier, head of the 400-person Hillier Group in Princeton, New Jersey. Do so top human resources directors. Money is available at big firms, and so are large-scale projects, which can make effective use of specialists. "You have people whose lifetime career is to research building materials and write about them," Hillier emphasizes. "In a large firm, that person has a real place and a real job."
NBBJ: THE NEW PLAYER IN SPORTS

Four years ago NBBJ Architects had little involvement in one of the big growth areas of architecture: sports and entertainment facilities. Today the Seattle-based firm of more than 750 people ranks third nationally in that field, behind two longer-established leaders, HOK and Ellerbe Becket. The story of how NBBJ got to be a member of the sports-design elite illustrates some of the advantages of very large architecture firms.

NBBJ reassesses its goals every year, and had wanted for some time to expand into sports facilities. In 1995 it got the chance when a group of principals in Ellerbe Becket’s sports group in Los Angeles decided to split from their Midwest parent and pursue a quintessentially 1990s concept: “sports as a subset of entertainment.”

Michael Hallmark, one of the Los Angeles principals (and earlier a founder of Ellerbe Becket’s sports practice in Kansas City), says his group considered establishing an independent new firm but decided that was impractical. To succeed at complicated, highly technical sports projects, which often take several years to come to fruition, it’s advantageous to be part of a large firm, according to Hallmark. “For us, bigness was important,” he says. “The scale of the projects meant we felt we needed to be big from day one. We needed the resources: a vertically integrated group of specialists.”

By becoming part of the corporate network of NBBJ, Hallmark and his colleagues were able to assure themselves access to experts on matters such as project management, graphics, and foreign cultures, and to guarantee themselves the capacity to handle highly technical issues, such as retractable stadium domes.

“We toyed with the idea of being a design firm and, when assistance was needed, having an associate architect,” Hallmark says. “The problem is, the projects are very technical. You can’t associate with just any architect, even a good one, and expect the follow-through to be there.”

The addition of the sports group, which now employs nearly 90 architects, has helped NBBJ fulfill what its managing partner, James Jonassen, identifies as a vision of being “a multi-building-specialty firm—experts in a number of building types.” The sports group has contributed in other ways, such as “opening our eyes to the ability to communicate with video.” The group uses tools of Hollywood moviemakers, such as Silicon Graphics workstations, which aren’t normally within the domain of architects. Of that particular tool, Jonassen says, “It was technology we would never have thought was worth the cost.” To his delight, it enables the firm to “tell a very complex story in a way that satisfies very short attention spans.”

NBBJ prides itself, Jonassen says, on being extremely “studio-focused. There are no layers of management. The unit of delivery of services is the studio. They are almost autonomous.” The combination of having studios concentrate on projects and having firm-wide resources such as digital technology, economic analysis, and “experience with alternative delivery approaches, from fast-track to design/build, to bidder design,” are key, in Jonassen’s view, to how a big firm can prosper and continue to grow.

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Locations: Columbus, Ohio; Los Angeles; New York City; Research Triangle Park, N.C.; San Francisco; Seattle; Oslo; Taipei; Tokyo.
LEO A DALY: BUILDING FROM TECHNICAL SKILLS

“We speak the language, we understand the language of the project type: the airport,” La Vern Rollet says when asked to explain how the firm he works for, Omaha-based Leo A Daly, came to collaborate with Cesar Pelli & Associates on the new south terminal of Washington’s Ronald Reagan National Airport. Earlier, Rollet had led a team from Leo A Daly working on an international arrivals building (unbuilt) at Honolulu’s airport. He’s been working on aviation projects since 1979, when the firm dispatched him to renovate terminals at Los Angeles International Airport.

Daly, the largest privately held architecture firm in the United States, with some 750 employees, about 230 of them architects, has based much of its success on an ability to carry out highly technical projects such as airports, laboratories, hospitals, and educational facilities. Leo A Daly III, FAIA, chairman and CEO of the firm his grandfather founded in 1915, says clients are drawn to the firm in large part because of their belief in the value of experience: “Hospitals want to talk to people who have done a number of hospitals before. They want someone who is coming off a very similar one.”

Along with technical expertise, Daly is known for its willingness to open new offices—and on occasion buy established firms—that can broaden its geographic reach and technical skills. “When a bank comes to you and says, ‘We want to build 1,000 offices spread throughout the U.S.,’ you need to have offices in those areas,” Leo Daly observes. The firm’s 1991 acquisition of Lockwood Andrews Newnam, the largest civil engineering office in Texas, is part of a strategy aimed at expanding into Texas and Mexico while simultaneously gaining new expertise in environmental and civil engineering. Daly now has 15 offices, four of them in the Far East, the Middle East, and Europe.

The firm’s reputation for design has not been as strong as its technical skills. This may help explain the enthusiasm voiced over the hiring, three years ago, of Richard Clark, formerly at Kohn Pedersen Fox, as corporate head of design and as director of design for Daly’s 125-person Washington office. Clark, who reports being given “pretty much a free hand,” has allowed design to stay with a project longer, as part of a team, instead of having designers quickly turn the project over to production.

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Locations: Atlanta; Council Bluffs, Iowa; Dallas; Honolulu; Houston; Las Vegas; Los Angeles; Omaha; Phoenix; San Antonio; Washington, D.C.; Berlin; Dubai, U.A.E.; Hong Kong; Madrid.

Above: Generations of Dals have worked in the firm. Left to right: Leo Daly Sr., William T. Daly, AIA, and Leo A Daly Jr., FAIA.
RTKL: Going International

"We're in a shift," says Lisbeth Quebe, the head of firm-wide marketing for Baltimore-based RTKL. With her health-care specialist husband Jerry Quebe and corporate practice specialist James C. Allen, Quebe left Perkins & Will to open a Chicago office for RTKL in 1996. She observes that in the past RTKL "had always expanded geographically. It was a way to be closer to our clients."

Today RTKL is expanding in a different fashion, concentrating not only on being physically near its clients but also on pursuing "a sector approach." That means building the firm's strength in its core markets of retail, entertainment, hospitality, health care, corporations, and government. Clients increasingly expect expertise from their architects, and RTKL believes that firms must deepen their knowledge of client issues in order to develop, rather than simply respond to, the next generation of ideas.

Disciplined, rational plotting of the firm's direction is one of the things that makes RTKL "a very strong company," according to Mark Zweig of Zweig White and Associates management consultants. In 1967 RTKL, with four principals and 45 employees, was one of the first architectural practices to decide it needed a leader who would concentrate on management.

The partners who reached that decision brought in a young manager, 28-year-old Harold Adams, who had gained high-level corporate and governmental exposure at John Carl Warnecke, working on projects with President Kennedy and his Cabinet, among others. Thirty-one years later Adams remains in charge, leading an organization that has grown to nearly 600 employees, with 309 architects, and has become increasingly international in its ambitions.

"We manage our affairs in a pretty conservative, businesslike way," Adams says. "While we take risks, it's all studied risk." Two of Adams's chief responsibilities are identifying market sectors where a major investment of money and personnel is likely to pay off in the long haul and going after international work, which now accounts for more than a third of RTKL's revenue.

Design and production, Adams says, is best done by "teams that have worked together repeatedly." He notes, "Over the years, we've broken our office down into studios. Those studios are concentrated on a specific project type." Studios allow RTKL to amass in-house expertise, which has become critical as the pace of decision-making has accelerated. Today, he says, "you need expertise now. If you don't have it, you will miss a market opportunity."

John Gosling, a vice president and urban designer in the Washington office, observes, "Once you get an expertise, you tend to attract the larger projects. You get 10- to 25-acre urban renewal properties, as opposed to one or two acres." A firm can also export the expertise and even "re-import" it later, as in the case of high-rise office building technology or housing.

In five decades RTKL has taken a local practice regional, then national, and finally global. Its most recent transformation, still in progress, involves going from being a large national practice doing business overseas to becoming a truly international practice. There was a time, Gosling says, when the firm "had some difficulty promoting people who did not grow up in the mother ship"—the Baltimore office. But now the firm has principals born in Britain, Argentina, China, and India. The direction is unmistakable.

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A firm that establishes expertise in rapidly expanding sectors, such as sports facilities or criminal justice facilities—two specialties in which HOK is strong—gathers tremendous momentum. At some point, the best such firms learn that the objective, as Nakazawa explains it, is not just to be “in a market,” it is to “lead the market.” That’s what generates continuing rewards and keeps a staff excited. The leader of a market sector can ride its position to worldwide success.

Often, success in the United States leads to success overseas and then back again. RTKL used its decades of experience in designing American shopping centers to win big retail assignments overseas. And the foreign work, some of it on a larger scale than in the United States, has inspired the firm’s designers. A retail specialist in RTKL’s Baltimore office marveled at a Japanese mall with a ski slope in its core. International work has set the firm thinking about new ways for retail complexes to captivate the public. The “ID8” section of RTKL, with its eclectic mix of architects; interior, graphic, and industrial designers; and people from television, is dreaming up not just buildings but the entire shopping-cum-entertainment experience.

Every big-firm leader attributes some of the rise of the very large firms to changes in the nature of building design. “Projects have gotten larger and more complex, and clients want them done faster,” Hillier observes. The first corporate headquarters Hillier produced, a 500,000-square-foot facility done 15 years ago for Beneficial Corporation, took four years from start to finish; by contrast, Hillier’s latest headquarters, 890,000 square feet for Bristol-Myers Squibb, was done in 15 months. Big architecture firms typically understand alternative delivery methods, such as fast-track construction and design/build. Most big firms can also spread the work across more than one office. When RTKL’s Dallas office landed a three-hotel commission in the Bahamas, the project was shared with the Chicago and Los Angeles offices because of the need for speed.

One of the motives for continually growing is the desire to attract and retain talented younger people. That’s accomplished, in part, by providing opportunities for promotion. “A lot of it boils down to the Sarbanes–Oxley, 2015,” says Hillier. One principal per 10 to 30 employees is an economically reasonable ratio, he calculates; therefore, “a firm has to grow by another 30 people before it can add another principal.” If growth stops, the best staff members on the way up may depart.

For the foreseeable future, bigness in architecture seems likely to keep ratcheting upward. The consolidation occurring among corporate clients shows no signs of abating, and those mergers and acquisitions will spur demand for more unified architectural services, Nakazawa believes. “If Bank America and Nationsbank merge, they’re going to want fewer relationships—and more from the ones they deal with. How many people do you want to educate?”

“We’re at a real turning point in the profession,” says Harold Adams, chairman of RTKL and of the AIA’s Large Firm Roundtable. (Twice a year the roundtable convenes the heads of big firms—those with at least 50 registered architects who are AIA members—to discuss concerns such as insurance, architecture education, and legal questions.) “With the globalization of architecture, we will see some big mergers,” Adams predicts. Will those mergers be “within countries,” he asks, or will they be “across borders”? He answers his own question: “Both.”

Is this the death knell for small firms? Although AIA surveys indicate that from 1990 to 1996 many two- to four-person firms disappeared, everyone interviewed for this article agreed that there will always be a place for small firms, which have lower overhead and the ability to give each client a principal’s full attention. There will also be room for smaller firms that focus on artistic innovation. “Design firms” like Cesar Pelli & Associates and Kohn Pedersen Fox also seem to have a tight grip on certain clients looking for distinctive design. Indeed, design firms with prestigious names coexist amiably with very large firms, teaming up with them to carry out big, complicated projects both here and abroad.

It’s at some in-between site, where the principals’ involvement diminishes but the economies of scale are not yet present, that the crunch will be felt, according to the apostles of bigness. “The firm that’s really beginning to be problematic,” says Hillier, “is the 20- to 50-person firm that does midsize office buildings, firehouses, canned stuff you can take off the Internet and customize.” Maybe. But Hillier notes, “There still are regional firms in many parts of the country that do pretty well because there’s a preference in many quarters for local firms that can be contacted readily. The problem many big firms have is that they’re regarded as impersonal and distant.”

Does design suffer?

Another analyst of architectural practice, Dana Cuff at UCLA, says large firms are always confronted with the question, “How do you maintain design quality?” Currently the very large firms deal with that issue predominantly by breaking themselves down into “studios”—groups that are large enough to handle all the components of a project and small enough to operate as a team. This arrangement works best, says consultant Weld Coxe, when the studio is headed by a principal who brings in work and has the authority to commit the firm. If studio heads have to go higher in the hierarchy for decisions, clients quickly become dissatisfied, Coxe says.

With a studio-based organization, “the same people can follow the project all the way through,” says Bruce Fowle, senior principal at New York’s Fox & Fowle. Such follow-through has become more critical, Fowle adds, as “integration of plumbing, mechanical, fire control, communication wiring,” and other elements of buildings has grown in complexity. The practice that some big firms used to employ—that of generating a design and then handing it off to the production department—is on the wane. This is welcome news both for design quality and for the morale of lower-echelon staff members, many of whom are once consigned to monotonously repetitive tasks. Another reason for the rise of the studio-based structure is that corporations have shifted much decision-making downward, from the top executive to vice presidents or managers, who are more comfortable dealing with studio heads. To make the clients comfortable, the organization of a big architecture firm must mirror the current fashion in corporate hierarchies.

How well a firm with a slew of offices can deliver on design quality is subject to debate. A. Eugene Kohn, a senior partner at Kohn Pedersen Fox, says his firm’s decision to “concentrate our design and technical skill in two places”—a Manhattan office with about 170 employees and a London office with about 80 employees—has enabled the firm to maintain a consistent level of quality. Bruce Fowle sees another hazard in bigness: “The larger it gets, the more it becomes a business, where there’s a greater concern for the bottom line and all the things that go with it.”

Bigness is good for clients, employees, and projects in some respects and bad for them in others. Those who run big firms are aware of the dangers, and many invest in abundant travel, conferences, educational programs, and other efforts aimed at keeping their organizations attractive to employees and to clients. They’ve heard E. F. Schumacher’s memorable phrase, “Small is beautiful,” and they know that misgivings about bigness run deep. Size cannot be safely touted in all quarters.

“When we go in to see a client, we don’t talk about size,” Hillier says. “Architecture is still a personal business. It’s still a service that’s delivered one-on-one. So many clients talk about ‘their architect’ and not about ‘their architecture firm.’”

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