2.1 Management of the Practice

2.1.1 Organization of an Architectural Practice
Introduction

Strategic Planning
  Styles of Architectural Practices
  Client Base

Types of Ownership of an Architectural Practice
  Agreements
  Sole Proprietorships
  Partnerships
  Corporations
  Partnership of Corporations
  Joint Ventures
  Multi-disciplinary Firms
  Foreign Firms

Internal Structure of an Architectural Practice
  Design Teams or In-house Studios
  Departments or Departments with Project Managers
  Other Combinations

Other Professional Services
  Legal
  Accounting and Tax Planning
  Insurance
  Investment and Retirement Planning

Definitions

References

Checklist: Issues to Consider for Partnership Agreements

Checklist: Issues to Consider for a Shareholders' Agreement for Architectural Corporations

Checklist: Issues to Consider when Preparing a Joint Venture Agreement
Introduction

Architects decide to set up their own practices for many different reasons. Some of these include:

- the desire to control one’s own professional destiny;
- the motivation to provide service to society and to clients;
- the wish to specialize in a certain field of architecture or market niche;
- an offer to form a partnership or purchase shares from an established firm or colleague;
- the award of a significant commission, either through a competition or from a business associate;
- a means for creating work or employment.

Anyone considering such a change should be aware from the outset that establishing an architectural practice has serious implications for one’s personal, professional, and business life. The individual should carefully weigh all the implications before embarking on this course.

Establishing and maintaining an architectural practice demands certain skills. One must be able to:

- market one’s services and get work;
- negotiate terms and compensation in client-architect agreements;
- hire and manage qualified staff;
- perform the full range of architectural services efficiently and effectively;
- work with the construction industry and administer contracts;
- operate profitably and provide stability to the practice.

The first key steps in launching a practice are to assess one’s own abilities, set long-term goals, and develop a strategic plan.

Strategic Planning

A strategic plan is a document that charts a course for the development of an architectural practice in clear, simple terms. It should identify the following:

- the architectural practice’s unique offerings in the marketplace;
- a vision for the future of the practice;
- measurable goals or milestones.

Typically, a strategic plan would encompass a time frame of three to ten years and it should be updated continually. The plan should address the following issues:

- the goals of the architectural practice;
- a service plan for providing architectural services to clients;
- a financial plan;
- a human resources plan for staff and principals;
- a public relations and marketing plan;
- a succession plan.

These various topics are discussed elsewhere in this section 2.1, Management of the Practice. Strategic plans usually assess:

- strengths;
- weaknesses;
- opportunities;
- threats.

Styles of Architectural Practices

Many organizations develop a mission statement which helps to ensure that all members of the organization focus on the goals established in the strategic plan.

The mission statement should define the style of practice, to a certain extent. Three common generic styles as described by The Coxe Group are:
• **Strong-idea (brains) firms**, which are organized to deliver singular expertise or innovation on unique projects. The project technology of strong-idea firms flexibly accommodates the nature of any assignment, and often depends on one or a few outstanding experts or “stars” to provide the last word;

• **Strong-service (gray-hair) firms**, which are organized to deliver experience and reliability, especially on complex assignments. Their project technology is frequently designed to provide comprehensive services to clients who want to be closely involved in the process;

• **Strong-delivery (procedure) firms**, which are organized to provide highly efficient service on similar or more-routine assignments, often to clients who seek more of a product than a service. The project technology of a delivery firm is designed to repeat previous solutions over and over again with highly reliable technical, cost and schedule compliance.”


### Types of Ownership of an Architectural Practice

Architectural practices are structured according to size and complexity. Frequently a practice will start as a simple entity, such as a sole proprietorship, and evolve into a more complex legal structure, such as a corporation, or partnership of corporations. Several factors affect the type of ownership including relationships with professional colleagues, tax implications, and exposure of personal assets. Architects should seek the advice of a lawyer and accountant before structuring a practice.

### Agreements

All business relationships should be based on a written agreement. Business partners should share certain values and financial goals, and architects are no exception. For partners or shareholders, a well-structured agreement provides a vehicle to deal with expansion, difficulties, and disagreements, as well as with disasters. Obtaining professional advice from a lawyer and accountant in preparing an agreement which outlines the ownership of an architectural practice is essential.

The structure of the practice must comply with the various architects acts and regulations of the provincial or territorial associations of architects as well as with other business regulations.

Refer to the “Charts: Comparison of Practice Requirements of Each Provincial Association” in Chapter 1.1.5, *The Organization of the Profession in Canada*.

### Sole Proprietorships

A sole proprietor is a single, unincorporated owner of an architectural practice. This architect has full personal control over all aspects of the practice. A sole proprietor can range from someone with a small, home-based office practice to an architect who employs many professionals and para-professionals. Most architectural practices in Canada are sole proprietorships.
Partnerships

A partnership is comprised of two or more partners. Most provincial associations impose restrictions on whom an architect may form a partnership with.

Refer to the “Comparison of Provincial Requirements regarding Partnerships” in Chapter 1.1.5, The Organization of the Profession in Canada.

A partnership may include “associates”; however, only the partners bear personal responsibility for the control and liabilities of the practice. Each partner is both jointly and severally liable for the partnership’s full obligations. Because a partnership is a complex form of ownership, its terms should be spelled out in a partnership agreement. For items to include in a partnership agreement, refer to “Checklist: Issues to Consider for Partnership Agreements Between Architects” at the end of this chapter.

Corporations

A corporation is a legal, collective entity authorized by statute to act as an individual business unit. Most provincial and territorial associations of architects have regulations which restrict the share ownership and the qualifications of directors of architectural corporations.

In Québec, the Ordre des architectes du Québec (OAQ) is in the process of changing its regulations to permit architects to incorporate. As of 2008, a company cannot practise architecture; only individuals, partnerships or consortia can practise architecture. However, an architect may provide professional services through a company in which he or she is a majority shareholder. Furthermore, an architect cannot practise in any type of arrangement with non-architects such as engineers, urban planners, interior designers. However, these other individuals may be minority shareholders in a company of which one or more architects are majority shareholders.

Refer to the “Comparison of Provincial Requirements regarding the Ownership and Structure of Corporations Which Practise Architecture” in Chapter 1.1.5, The Organization of the Profession in Canada.

Incorporating a practice is done for a variety of reasons. The issues should be reviewed with a lawyer and an accountant before forming a corporation and entering into a shareholders’ agreement. For items to include in a shareholders’ agreement, refer to “Checklist: Issues to Consider for a Shareholders’ Agreement for Architectural Corporations” at the end of this chapter.

Partnership of Corporations

A partnership of corporations is an architectural practice structured to preserve the individual identity of two or more corporations. There are a variety of reasons for creating this form of business entity. Such an entity:

- enables individual architects who are incorporated for business or tax reasons to practise with both the advantages of a partnership and the advantages of their corporation;
- allows two or more corporate practices to retain separate identities for certain types of projects but join forces for other types of projects;
- allows the bringing together of complementary but differing interests and ownership -- for example, one corporation may focus on architectural services, while the other is a corporation providing support through drafting services, equipment, real estate and other chattels, etc.

Joint Ventures

Joint ventures are usually formed to create one architectural entity for the purpose of a single specific project. Frequently, a joint venture is set up to provide complementary services for a particular project -- for example, a practice specializing in hospital work may need to team up with a firm located near the site of the project to provide contract administration services, especially field review.

Joint venture projects may require special liability insurance, often on a single project basis, to protect the parties forming the joint venture. Architects contemplating working in
association or in a joint venture should review the circumstances with their professional liability insurers to determine the most appropriate insurance arrangements. Clients may require the participants of a joint venture to obtain single project insurance with higher limits than the practices carry through their annual practice insurance.

Architectural practices should clearly define -- in writing -- their share of the services and fees before entering into a joint venture. Some provincial associations regulate joint ventures and their names.

For items to include in a joint venture agreement, refer to “Checklist: Issues to Consider when Preparing a Joint Venture Agreement” at the end of this chapter.

### Multi-Disciplinary Firms

Multi-disciplinary firms are professional companies which include architects and other professionals, usually engineers. Such firms may also include urban planners, landscape architects, interior designers, and other consultants. Any multi-disciplinary firm must comply with the requirements of the provincial associations of architects in order to practise architecture. It can sometimes be beneficial to have all disciplines on a building project readily available in-house. Such an arrangement can simplify communication among, and coordination of, the various disciplines.

### Foreign Firms

Certain foreign architectural firms have established branch offices in Canada. The structure of the foreign firm and its ownership must nevertheless comply with the requirements of the provincial association of architects. Several Canadian firms have established branch offices overseas to better serve foreign clients.

### Internal Structure of an Architectural Practice

Once a firm is established and grows, it requires an internal structure or mechanism for delivering architectural services. The structure of the practice depends on its leadership and its values and culture, and on the needs of the project.

There are several models:

- design teams or in-house studios
- departments;
- any combination of the above.

Some architectural practices sub-divide the office into teams to deal with a project in its entirety; others compartmentalize the firm, permitting each department to specialize in one type or stage of architectural services.

#### Design Team or In-house Studio

A design team is usually assembled for a specific project, drawing on the skills of personnel in the office. The team leader, typically a project architect, coordinates and manages the team and deals with the client, sometimes together with the “principal in charge.” Occasionally, some architectural practices establish studios which remain together as efficient working teams for an indefinite period of time.

#### Departments, or Departments with Project Managers

Some larger architectural practices sub-divide staff into groups or departments. Usually each department is responsible for a different phase of the project, such as:

- marketing;
- design and design development;
- construction documents;
- contract administration.

A project architect or senior employee (often called a project manager) is responsible for ensuring proper coordination when the project passes from one department to the next.

#### Other Combinations

It is possible to create various combinations of design teams, permanent studios and departments.

#### Other Professional Services

Several professional services are required to support an architectural practice. These include:

- legal;
- accounting and tax planning;
- insurance.
Legal

Establishing a professional relationship with a lawyer is important for the architect. Legal services may be required for the following:

- establishing a partnership or corporation;
- preparing annual minutes for the corporation;
- entering a lease or purchasing office property;
- preparing certain employment agreements with staff;
- reviewing professional liability insurance options and claims;
- reviewing non-standard client-architect agreements or amendments to standard agreements;
- reviewing non-standard owner-contractor agreements or amendments to standard agreements (on behalf of the client);
- assisting in the collection of accounts which are in dispute;
- handling other disputes or legal issues (such as filing and processing liens and mortgages; human resources problems).

It may be necessary to establish a relationship with a number of different lawyers who have expertise in specific fields of practice; or, alternatively, with a larger firm of lawyers that has a range of in-house expertise.

Accounting and Tax Planning

It is also important to establish a relationship with an accountant. Accounting services may be required for the following:

- establishing a practice, whether a sole proprietorship, partnership or corporation;
- establishing financial terms of a partnership or shareholders’ agreement;
- preparing periodic balance sheets and profit/loss positions;
- preparing annual financial statements;
- preparing personal and corporate income tax returns;
- assisting in the preparation of sales and value-added tax returns;
- assisting a lawyer in the preparation of a corporation’s annual minutes;
- analyzing the financial position of the practice;
- providing tax planning advice.

Some larger architectural practices employ a comptroller, usually an accounting professional, who directs and monitors the day-to-day financial operations of the practice. It may still be required to engage an accountant to provide tax planning advice and ongoing advice on the financial position of the firm, as well as annual financial statements and, if required, audited statements.

Refer also to Chapter 2.1.4, Financial Management, for other issues to discuss with an accountant and for an overview of the financial operations of an architectural practice.

Insurance

An architectural practice will have a variety of insurance requirements. Some of these include:

- Professional Liability Insurance
  - general coverage
  - special project coverage
  - add-on insurance or “excess” coverage
- Office Premises and Automobiles
  - theft and vandalism
  - accident
  - fire and other damage
  - owned and leased vehicles
- Life and Accident Insurance
  - personal
  - business partners and directors
- Disability Insurance, to cover
  - office overhead
  - loss of business
  - personal income (income protection)
- Medical and Dental
  - extended medical care
  - dental plan
  - vision care
- Workers Compensation(regulated provincially)

To ensure that the practice is properly and adequately covered, consult an experienced insurance agent or an independent risk management advisor.

A few provincial associations of architects have established liaisons with certain insurance underwriters who provide discounted premiums to architects. Professional liability insurance is a specialized type of insurance provided by a limited number of insurance underwriters and also by the Ontario Association of Architects.
Plan for Certificate of Practice Holders of the OAA by the Pro Demnity Insurance Company and by the Fonds d’assurance de la responsabilité professionnelle de l’Ordre des architectes du Québec for members of the OAQ.

Refer also to Chapter 1.1.5, *The Organization of the Profession in Canada*, Chart 5B: A Comparison of Provincial and Territorial Requirements regarding Professional Liability Insurance.

**Investment and Retirement Planning**

Although not unique to the profession, all architects should plan for retirement and therefore seek the advice of a financial investment professional to ensure proper planning for retirement.

Refer also to Chapter 2.1.2, *Succession Planning*, for other considerations related to retirement planning.
Definitions

**Corporation:** A legal collective entity which acts as an individual business unit requiring a legal instrument to create the entity as a commercial corporation.

**Joint Venture:** A defined business relationship between two or more architectural practices for a limited purpose or objective, without some of the inherent duties and responsibilities of a partnership.

**Partnership:** An unincorporated relationship between architects (or other professionals as may be permitted by provincial requirements) for carrying on business in common.

**Sole Proprietorship:** An architectural practice owned and controlled exclusively by one person.

References


Kogan, Raymond F., AIA. *Strategic Planning for Design Firms.* United States, 2007


[www.raic.org/resources_archives/research/succeedingbydesign_e.pdf](http://www.raic.org/resources_archives/research/succeedingbydesign_e.pdf)
Checklist: Issues to Consider for Partnership Agreements

Establishment of the Partnership
- Identification of Partners
- Partnership Name and Trademark or Logo
- Registration of Partnership under Partnerships Registration Acts
- Right to Use Former Partner’s Name(s)
- Place of Business
- Description of Architectural Practice

Term and Termination
- Commencement Date
- Termination or Dissolution
- Liquidation or Distribution of Assets
- Ownership of Clients

Disposition of Partnership Interests
- Admission of New Partners
- Retirement, Bankruptcy, Prolonged Illness or Death of Partner
- Sale of Partnership Interest To Third Party
- Valuation of Partnership Interest
- Prohibition of Assignment or Encumbrance of Partnership Interest
- Expulsion of Partner
- Grounds for Dissolution of Partnership
- Purchase Options: On Death, Retirement or Expulsion, or By Successors from Continuing Founders
- Power Of Attorney
- Indemnification for Retired Partners or Deceased Estate when Name Used

Accounting
- Accounting Principles
- Auditor
- Fiscal Year and Budget
- Banking Arrangements
- Partnership Assets and Personal Assets

Restriction on Partners
- Restrictions on Use of Partnership Name
- Liability for Personal Obligations
- Indemnities of Partners for Prohibited Acts
- Payments of Separate Debts
- Devotion of Full Time and Attention to Business
- Non-Competition

Requirements of Partners to enter into Marriage Contracts with Spouses
- Insurance
- Maintenance of Good Standing and Architectural Licence

Management of the Partnership
- Partners’ Authorities
- Appointment of Managing Partner
- Management Committee
- Contracting with Third Parties
- Division of Responsibilities

Capital and Income
- Contribution of Capital
- Division of Net Profits
- Drawing on Partnership Funds
- Limitation of One Partner’s Share in Profits and Losses
- Inclusion of Salaries and Benefits in Determining Partners’ Profits
- Liability to Account for Outside Income
- Remuneration for Outside Income

General
- Mediation and Arbitration
- Ownership of Copyright and Waiver of Moral Rights
- Confidentiality and Trade Secrets
- Further Assurances
- Loss of Professional Membership of Any Partner
- Volunteerism

The foregoing is a list of common concerns and clauses in partnerships and partnership agreements. The list is not exhaustive, will vary in individual circumstances, and cannot replace legal advice. Architects should consult their lawyer(s) before negotiating and entering into a partnership or a partnership agreement.
Checklist: Issues to Consider for a Shareholders’ Agreement for Architectural Corporations

Construction of the Agreement

- Parties to the Agreement
  - Parties Who Are Not Non-residents
  - Requirements of Provincial or Territorial Associations of Architects
  - Number of Shares and Classes of Shares Held by Each Shareholder
  - Shares Free and Clear of Liens and Encumbrances
  - Warranty of the Corporation Regarding Authorized Capital and Issued and Outstanding Securities
  - Unanimous or Non-unanimous Agreement
  - Termination of Prior Shareholders’ Agreements
  - Jurisdiction of Incorporation
  - Incorporation of Articles and Bylaws

Management of the Company

- Business of the Company
- Organization and Management of the Company as per Architects Act
- Composition of the Board of Directors
- Limitations on Authority of the Board as per Architects Act
- Matters for which the Shareholders are to be Notified and Addresses for Notices
- Officers of the Corporation and Term of Office
- Appointment and Replacement
- Time to be Devoted by Officers
- Remuneration of Officers and Directors
- Proper Books and Records
- Meetings of the Directors and Shareholders

Rights and Obligations of Shareholders

- Permitted Outside Activities
- Employment of Shareholders
- Protection of Shareholders
- Management Contracts with Shareholders
- Maintenance and Good Standing with Provincial or Territorial Associations of Architects

Default

- Events of Default
- Procedure on Default
- Opportunity to Remedy
- Consequences of Default

Financing

- Bank Financing and Signing Officers
- Calls on Shareholders for Additional Financing
- Guarantees of Debt of the Corporation
- Use of Surplus and Net Income
- Dividends
- Auditors and Bankers of the Corporation

Issuance of Additional Shares

- General Procedure
- Pre-emptive Rights

Term and Termination Options

- Effective Date
- On Death of a Party
- On Sale of Business
- Upon There Being One Shareholder

Insurance

- Lives Insured
- Payment of Premiums
- Payment of Benefits under Insurance Policy

Valuation Methods

- Agreed-to Value
- Book Value
- Fair Market Value
- Formula Value
- Independent Appraisal
- Timing of Valuation
The foregoing is a list of common concerns and clauses in a shareholders’ agreement. The list is not exhaustive, will vary in individual circumstances, and cannot replace legal advice. Architects should consult their lawyers before negotiating or entering into a shareholders’ agreement.
Checklist: Issues to Consider when Preparing a Joint Venture Agreement

Establishment of Joint Venture
- Identification of Architectural Practices
- Joint Venture Name and Trademark or Logo
- Place of Business
- Description of Project
- Not a Partnership

Management of Joint Venture
- Formation of Committee
- Committee to Manage
- Authority of Committee and Joint Venture Participants
- Appointment of Individuals and Replacements to Committee
- Appointment of Project Manager
- Meetings of Committee
- Votes Required to Authorize Actions
- Equality of Votes for each Architectural Practice
- Prior Consent for Fundamental Acts
- Co-signatures Required for Important Documents

Responsibilities of each Architectural Practice
- Apportionment of Responsibilities
- Apportionment of Profit and Loss
- Maintenance of Good Standing and Architectural Licence
- Joint Consent for Media Releases
- Capital Contributions
- Property Contributions

Financial Matters and Ownership of Property
- Appointment of Accountant
- Banking Arrangements
- Fiscal Year
- Drawing on Joint Venture Funds
- Accounting Requirements for each Architectural Practice
- Authority to Endorse Cheques
- Approval for Expenses
- Title to Intellectual Property
- Insurance Requirements
- Joint Venture Assets and Assets of Architectural Practices

Term and Termination Options
- Effective Date
- Duration of Joint Venture
- Bankruptcy/Insolvency of Architectural Practice
- Change of Control of Architectural Practice
- Material default (with/without Cure Period)

Consequences of Termination
- Joint Venture Liquidation or Dissolution
- Return of Property to Architectural Practices
- Disposition of Property
- Outstanding Balances Due
- Ownership of Intellectual Property

Other
- Settlement Resolution and Arbitration
- Confidentiality and Trade Secrets
- Copyright
- Loss of Professional Membership of any Architectural Practice
- Further Assurances
- Addresses for Notice
- No Assignment of Agreement without Consent
- Time of Essence
- Entire Agreement and Amendment
- Governing Law
- Severability