

## Why Mid-Sized Design Firms Should Hire a Director of Operations

Hiring a DOO has the potential to significantly increase revenues while creating an environment where designers design, not manage!

By Michael Bernard, AIA, and Mary Breuer August 6, 2013

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Editor's note: This is the fifth installment in an exclusive ArchNewsNow series to provide A/E professionals with practical tips for a more successful, profitable practice.

The distinction between practice management and project management seems obvious, but in our experience, it is not often articulated. While project management is the subject of much attention and a popular training topic in larger firms, practice management is hardly mentioned. Most schools offer one course in a curriculum of two or three years at the graduate level. The well-managed practice is usually a lucky convergence of senior leaders who have embraced the operations of the firm and tackled them as seriously as they would a design problem. But good business management can also be the result of the efforts of a Director of Operations (DOO).

### What is “operations”?

“Operations” is what practice management is all about – the business of the business. By operations, we mean all the functions that support the technical design work of an entire firm, and could be considered the backbone of a successful business. It is the sum of IT, legal, financial, risk management, marketing, and all other non-design functions. All of these roles require significant experience, if not specialized training.

Firms typically hire individuals for each function and expect them to perform their individual roles well. Less common, especially in mid-sized firms, is the Director of Operations. This is an individual who is responsible for all of the business functions of the firm in aggregate. The skills required to be a successful DOO are broad and inclusive. The DOO is not an added layer of management: he/she is both an experienced professional in business operations and an advocate for the individuals responsible for the backbone functions of the firm, and oversees them all to ensure the highest level of efficiency and effectiveness as they work collectively to support the purpose of the practice: design and documentation.

### Managing without experience

Who performs these functions in firms that don't have a DOO? Typically, oversight of the operational functions is split among the partners/principals: one will assume responsibility for overseeing the accounting staff; another will be the contracts guru; another will guide HR functions; and there will often be a Principal-in-Charge of Marketing who has responsibility for the marketing department. What is wrong with this model?

1. **Revenue production is compromised:** Depending on firm size, market sector focus, the general economy, and other variables, previously revenue-producing principals will devote up to 25% of their time managing these functions. Every hour that a principal is not “doing” or “selling” is a lost hour of potential revenue or business development. The DOO is less expensive on an hourly basis than a principal.

2. **Job satisfaction is compromised:** Generally, the principals who assume these functions would rather be doing design and project and client management. They recognize the importance of senior-level oversight, and often-begrudgingly “take one for the team” by assuming these roles. An unhappy individual will not make as strong a contribution as someone in the same role who is excited by the challenges. Further, leaders unhappy about assuming duties they’d rather not perform can adversely impact those whom they might cultivate and mentor.
3. **Performance is compromised:** The various functions overseen by design firm principals may be executed, but how well are they performing? How business-savvy can an individual be expected to be if his or her main role in the firm is design or project management and not operations? It is a false dichotomy to consider a firm as either a practice-oriented business or a business-oriented practice. Why can’t a firm be as good at managing itself as it is in solving clients’ problems with a high level of design innovation? These “backbone” roles at design firms are all increasingly complex functions which require specialized knowledge. Without current knowledge of these functions, a firm may not be effectively or efficiently managing its assets (primarily human resources) to achieve the goals the principals have embraced.

### **Not just for large practices**

Why are some firms “well-run” while others forge ahead with small margins and overworked project leaders? Our contention is that at every stage of growth, “well-run” firms recognize the necessity for expertise other than design and project management.

#### *Large firms*

Most large firms have recognized this and appointed Directors of Operations or Chief Operating Officers. As the title implies, COO’s are typically found in the larger design firms: Gensler, Perkins+Will, HOK, and SWA are just some of the larger firms who have understood the importance of including in their senior-most leadership structure an individual with the skills necessary to oversee the backbone functions of the enterprise with a high level of authority and responsibility.

#### *Mid-sized firms*

Here are two observations we believe are important for mid-sized firms to consider:

1. At all stages of evolution of a design firm, **considerable benefits result if a dedicated individual is responsible for non-design-related functions.** What that individual is called (from office manager to COO) depends on the culture and maturity of the firm and level of authority and responsibility that the principals want to invest in that individual.
2. As a firm matures, the **DOO position requires more experience and/or training in the operations of a firm, as well as seniority and influence.**

Firms that stand the best chance of benefitting from a DOO are Design-First firms – widely recognized for their design excellence. Among this group of mid-sized firms in particular, there are very few directors of operations. Because they have distinguished themselves through design, the demand for their services is generally higher

than many other firms – hiring a DOO has the potential to significantly increase their revenues while creating an environment where designers design, not manage!

Here is a great example: The acclaimed Seattle firm, LMN Architects, winner of three 2013 AIA National Honor Awards and the Sustainable Building of the Year award for the Vancouver Convention Center, initially worked with a DOO as a part-time position, but last year, the firm hired full-time Director of Operations Scott Lelieur. George Shaw, LMN's managing partner, cites the benefits of having such a senior-level individual in the leadership structure of the firm: "Scott is able to focus on the business functions that hold the firm together so the partners don't have to. He is an active voice in our ongoing leadership dialogue, and involves us when big decisions need to be made or when he has ideas that need our review. Scott brings new perspective to organizational processes, and by virtue of having a comprehensive view of how the operational functions knit together as a business whole, provides insights that may be missed were the functions shared part-time amongst multiple firm leaders. Most importantly, having Scott completely immersed in the culture of the firm and strategic decision-making enables the optimization of operational processes in ways that maximize business effectiveness while reinforcing the essence of our design-focused culture. That Scott is an experienced architect with an MBA helps impart the balanced perspective that we believe is important for this role."

#### *Small firms*

Where the cost of a full-time DOO might be prohibitive, outsourcing this function on a part-time basis can be an excellent solution. For a monthly expenditure of about \$3,500 to \$5,000 and a tightly-defined scope, a firm of 25 people could obtain the services of a DOO for 30 to 40 hours per month. (The cost would rise as the firm size increases, but decreases as a percentage of operating revenue.)

#### **Why so few Directors of Operations?**

There are two common reasons why firms resist having a Director of Operations:

1. Too expensive. Some firms may think it would be too costly. At what point in a firm's evolution can a firm financially justify bringing on a full-time DOO?
2. San Francisco-based Lundberg Design, a 20-person diversified practice, retains a consulting director of operations. This arrangement allows the principal and associates to focus on design-related tasks. This "divide and conquer" strategy has helped clarify and reinforce the firm's focus on design excellence and documentation. The DOO is responsible for such fundamental tasks as preparing contracts, project schedules, staffing projections, and performance reviews (with the principal). These critical tasks are not ignored or added to the "to-do" lists of leaders who are already overloaded. This arrangement is particularly valuable for single-owner firms.
3. "It's too corporate for us; we're not that kind of firm." We hear it all the time, but will focusing on business really change a firm's culture? "Focus" does not mean "override." A DOO/COO can operate well within a design-focused environment.
4. SWA, a 200-person landscape architecture firm with a laser focus on design, has had a COO for 30 years. Scott Cooper is a principal who functions as COO and CFO. Kevin Shanley, the CEO, would be the first to say that SWA is definitely not a "corporate" firm, but has extraordinarily benefited from entrusting the business functions to Scott: Having a COO has enabled SWA to create a design-focused culture which

has produced one of the most celebrated landscape design firms practicing today. (The firm's margins are also in the top quartile for design firms, nationally.)

5. Another less-articulated concern: reluctance to let go/trust and delegate. This is a hard one. Most principals in mid-sized firms have been with their firms for a decade or more. Much sweat equity has been invested in the process and there is a natural ownership of firm operations – not to mention fear that it either will not be done properly or that the principals will no longer be involved/kept informed.

### **What a Director of Operations can do for the mid-sized design firm**

There are some immediate, easily quantifiable, tangible contributions a DOO can make:

- Increase billable hours among the principals
- Increase principal time in business development and client maintenance
- Introduce cost-saving systems and processes

But the less immediately-obvious benefits can pay off even more than the cost-saving/revenue-enhancing gains that are so obvious:

- Advocacy for those performing the functions to surface problems, sort out conflicting priorities, introduce new ideas
- Critical thinking on the whole firm's behalf (a new project management system; a new CRM system; the addition of a new service; exploration of the financial and operational implications of new location)
- Focusing previously dispersed critical firm-wide functions into one person who has a stake in the outcomes over time: strategic planning; retreats; new systems and processes; etc.

### **Finding a qualified DOO**

Because there are few design firms with designated individuals performing operations functions, there aren't (yet) many people qualified to assume the role. What is the optimum profile?

In general, we think that the individuals who perform best in this role are design-trained. The people we have seen doing well in DOO roles are typically recognized that they could be effective at the business of the business somewhere between five and 10 years into their careers. They may have naturally gravitated toward marketing or IT, and specifically sought a role that called on their latent skills in these areas. We advocate design training for two reasons:

1. Knowledge of the design process
2. Credibility among the rest of the staff

We began by mentioning the practice of promoting effective project managers to the role of DOO. While some good PMs will certainly succeed as DOOs, we feel that the skills of project management are not sufficient to guarantee success as a DOO. Similarly, embedding these functions in CFO responsibilities can create a potentially adversarial relationship, obscuring the benefits of a COO who embraces the multiple backbone functions of a design firm with no particular bias. There must be an appreciation for all functions working in

concert. In addition, the acumen necessary to manage a business – especially in finance, marketing, and IT – is not part of the role of a PM.

### **The new role of the Principals**

With an effective, experienced DOO on board, the principals should assume new responsibilities to help the DOO be successful.

- Provide oversight, guidance, and direction of DOO role.
- Assign one or more technical advisors to specific operations, like IT and marketing, where the DOO may not have technical depth.
- Generate awareness of and respect for the DOO.

Because there are not many DOOs, and because the function can be removed from the everyday work of design firms, staff may be unfamiliar with what a DOO does or why the role is important to the firm's success. To help him or her succeed, the entire firm should be informed about the role and how they can expect to interface with the position. Marginalization of the DOO – a prospect that is not difficult to imagine among designers and project managers who are unfamiliar with the position – will defeat the purpose of having hired him or her.

Achievements of the DOO should be acknowledged and celebrated by the principals; staff at all levels will follow suit. It is easy to fall into the trap of designating a DOO, only to find that the principals continue to be inappropriately involved. To allow this to happen is to undermine the role of the DOO.

### **Results**

The firms that we have seen embrace this strategy have increased the amount of time that principals can devote to design, project review, business development, and public relations. These firms enjoy above-average profitability: integrating a part- or full-time DOO consistently results in improved financial performance in a very short period of time. No formula is a universal panacea. But principals who bring a DOO on board have experienced both personal and firm-wide revenue growth ranging from 150% to 300% within two to five years. Any architect would argue the importance of hiring a design-trained professional for a new building. So why is it so foreign to architects to hire an experienced operations professional to run their business?

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