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Financial Management for Firms: Accounting, Billing, and Budgeting

by Richard N. Pollack, FAIA, FIIDA

An old adage about our profession is: “What does a designer or architect do when they inherit one million dollars?” Answer: “They keep practicing until it’s all gone.” The truth is that it is quite possible to make a good living in the profession, and that requires a firm to be run with robust financial management techniques and controls. As management guru Peter Drucker says, “If you can’t measure it, you can’t manage it.”

The first step is to purchase an appropriate accounting and project management system—a product for straightforward accounting, such as QuickBooks, as well as project management software that can record staff hours and track staff time spent against fee projections. The most effective program is one that serves both accounting and project management functions, and just a few examples for architecture and design professionals are: Deltek, Ajera by Axium, and Clearview by InFocus. With business software’s movement to the cloud, the product you choose should have full online capabilities, including the ability to back up data online. I am not a software expert, and I suggest that you conduct your own research on the best program for your firm.

On the matter of recording time in the project management system: Your staff should be able to input their own hours from wherever they are, but timesheets still need to be reviewed by project managers or principals prior to finalizing and invoicing. Even with the process completed online, my suggestion is to make the most of your face-to-face meetings. Have all timesheets submitted and reviewed prior to a consistent weekly morning staff meeting at which those responsible for reviewing hours can raise any questions, and make edits or corrections.

Principals at some firms do not complete timesheets—you know who you are. If that is the case, the firm is definitely not getting the highest potential revenue and profit for both hourly not-to-exceed and fixed-fee projects. In addition, almost every design firm has staff not recording at least some of the time spent on projects, especially overtime, and the result is that the initial project fee is no longer accurate and staff are typically not getting paid for those extra hours. Ensuring that all staff time at all levels is captured enables a firm to accurately measure which project types, internal teams, and clients are the most profitable.

Every company needs a certain level of pressure to exceed business expectations and goals. By recording all time spent, the staff managing projects are pushed to identify any potential scope creep to the client, and to follow up with requests for additional services.

The result is an increase in revenue and, hopefully, profit. Designers are often reticent to ask clients for additional services, but that should not be the case. Think about how often a contractor will submit change orders. Also, attorneys often bill in six-minute increments and try to charge for all the time they spend, and the most senior attorneys bill the most time and money. In order to do the design work we love, I believe that we must receive the revenue to properly compensate staff, and account for all the time spent on projects.

Another key component of strong financial management is establishing a smart budget for the following fiscal year, with the starting point being expenses related to the firm’s strategic plan. Using this approach makes the budget a stronger component of the tactics used to achieve the firm’s strategies. The detailed budgeting process also focuses leadership more tightly around the strategies.

An effective approach to validating the budgeted expenses is to review expense categories from the previous three years, coupled with updated firm strategies. For example, strategy might include developing a new project type, such as healthcare. In order to penetrate such a market, there is a need to create new collateral, attend healthcare design conferences, and hire staff with more experience in healthcare design. The annual budget would show all the anticipated expenses associated with diving into the new market, and would also enable the firm to track success in getting there.

Budgeting revenue accurately can be a challenge, but the starting point is, again, to review the previous three years’ income, overlaid with external economic realities. I always attended economic forecasts presented by municipal government, dedicated real estate associations, and the regional real estate community with the intention of getting information on market factors affecting interior architecture.

If a firm’s leadership does not fully utilize the systems and procedures that I outline in this month’s column and budget effectively, they cannot measure performance, and therefore, cannot prosperously manage the firm.

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