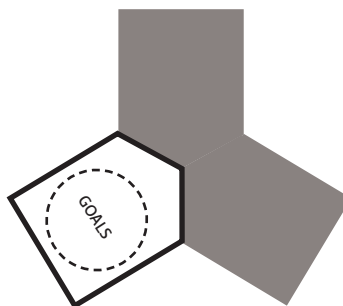


### 3 Trade-offs in the value capture of architectural firms: the significance of professional value



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## Abstract

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Architectural firms often have difficulty generating profit from their services as they pursue not only commercial but also professional goals. These goals frequently conflict and have to be balanced during the process of value creation and value capture. So far, literature has focused on the interaction between the perceived use value for the customer and the fee that is paid to the firm. To better understand how professional service firms realize their organizational targets, professional value needs to be included. In this study, in-depth interviews with the architects and clients of nine housing projects provide insight into the content and process of value capture by architectural firms. The data reveal strategies by which architects tried to maximize the capture of professional value at the expense of profit or sometimes even their clients' perceived use value. These trade-offs in value capture confirm the importance of professional value when studying value creation and capture in a professional service context. This paper provides an understanding of how architectural firms struggle to balance competing goals and highlights the importance of well-managed value capture.

## Keywords

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Architectural management, collaboration, professional service firms, value capture, value creation.

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## § 3.1 Introduction

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The business environment for architecture, engineering and construction firms is changing rapidly in response to global societal changes (Duffy and Rabeneck, 2013). Organizations have to deal with an industry that is highly diversified and extremely competitive. New governance structures have led to changes in industry roles and long established business models are questioned regarding their effectiveness. The economic recession and the substantial market changes in the last few years have forced organizations to reassess the ways in which they create and capture value.

Fuelled by the ongoing changes, both professionalism and the way that professionals are perceived are evolving (Hughes and Hughes, 2013). The architecture profession has even become subjected to potential erosion (Cohen et al., 2005). While architectural firms are challenged to respond adequately (e.g. Jamieson, 2012; Schoorl, 2011),

they are still mainly concerned with handling the pressures of the recent economic downturn. As Duffy and Rabeneck (2013, p. 120) argue, architects have so far been 'remarkably unforthcoming about the roles they might profitably play'. Recent studies show that the architectural field is gradually recovering (Architects' Council of Europe, 2015). Although the turnover of Dutch architectural firms stabilized in 2013, 39% of the firms still remain unprofitable (Vogels, 2015). To stay competitive, architectural firms need to find ways to deliver added value to their clients in a more profitable way.

Like other professional service firms (PSFs) (Løwendahl, 2005), architectural firms face tensions between their organizational goals. Whereas firms are driven by a professional ethos to provide service quality, they follow organizational logics to make money. This duality especially characterizes creative professionals (DeFillippi et al., 2007) and is an example of the many paradoxes with which architects are regularly confronted (Manzoni et al., 2012). Paradoxes cannot be resolved: they need to be accepted and handled consciously to enable organizational sustainability (Smith and Lewis, 2011). Hence, successfully attending to competing goals is critical for architectural practices (Manzoni et al., 2012), PSFs (Noordegraaf, 2015) and the growing number of 'hybrid' organizations that are dealing with both commercial and societal goals (Smith and Lewis, 2011).

To better understand why architectural firms experience difficulties making profit, more information is needed about how these firms actually capture value for organizational purposes. Bowman and Ambrosini (2000) build on the classic distinction between use value and exchange value to address value at the organizational level of analysis. Use value refers to the customer's subjective perception of the qualities or utility of a product or service. It represents the purpose of organizational value creation (i.e. what the firm intends to deliver to the customer). Exchange value is the price paid at the moment of exchange and represents the purpose of organizational value capture (i.e. what the firm intends to appropriate to guarantee organizational survival). To understand value capture (and value creation) in the context of professional service delivery, we propose a third dimension of value, namely professional value. After all, PSFs are not only interested in earning money by delivering customer use value. They also pursue other goals such as reputation (Boutinot et al., 2015), individual talent and motivation (Canavan et al., 2013), and knowledge development (Løwendahl et al., 2001). When discussing organizational value capture from the viewpoints of traditional businesses and entrepreneurial firms, previous literature, however, remained focused on monetary aspects (e.g. Lepak et al., 2007; Pitelis and Teece, 2009).

In this study, we extend the theoretical distinction between use value and exchange value by adding professional value as a third value dimension to study organizational value capture in a professional service context. We specifically look at the service

delivery of architectural firms and address the following research question: how do architectural firms capture value for organizational purposes in the project-based interaction with their client? To answer this question, we selected nine cases of large housing projects in the Netherlands and conducted semi-structured interviews with both architects and clients. While acknowledging the existence of a use value, an exchange value and a professional value dimension, we shed light on architectural firms' value capture goals, strategies and trade-offs. With this, we contribute to the theory development on organizational value capture from the perspective of creative service professionals and their customers in a business-to-business relationship.

The paper is organized as follows. First, we discuss the theoretical background. We introduce the concepts of organizational value, value creation and value capture, and present a theoretical framework to understand value creation and value capture in the area of professional service delivery. We then present our methods, including research approach and sample, data collection and data analysis. Next, we present an overview of value capture by architectural firms. Our findings are grouped according to the value capture goals that were pursued by architectural firms (the content of value capture) and the value capture strategies that were used to actually capture value (the process of value capture). Our analysis of the findings results in an overview of trade-offs in value capture, on which we reflect in the discussion section. In this section, we also provide implications and directions for future research based on the identified constraints and opportunities within the value capture process of architectural firms. We conclude that firms prioritize the capture of professional value over their organizational profit and sometimes even their client's use value, both in the service offer and during service delivery.

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## § 3.2 Theoretical background

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### § 3.2.1 The concepts of organizational value, value creation and value capture

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Value is at the core of how organizations work. Organizations create value in many different ways and for many different targets (Lepak et al., 2007). Organizational value entails the 'activities, products and services engendered by organizations in market economies, which are perceived to be worthy by potential beneficiaries such

as consumers, suppliers or competitors' (Pitelis, 2009, p. 1118). As each individual responds to different logics of worth, perceptions of what is valuable differ from person to person (Boltanski and Thévenot, 2006). Moreover, to assess the worthiness of a subject matter, it is necessary to understand its meaning in the social or cultural context in which it is embedded (Lepak et al., 2007). Hence, organizational value is characterized by a highly subjective and context-specific nature.

Building on the classic distinction between use value and exchange value, Bowman and Ambrosini (2000) emphasize the existence of two different value dimensions at the organizational level of analysis, namely use value – which refers to the customer's subjective perception of the qualities or utility of activities, products or services – and exchange value, which refers to the price that is paid by the customer at the moment of exchange (ibid.). Bowman and Ambrosini (ibid.) argue that organizations will not know the monetary worth of the created use value until it is exchanged. At the time of sale, the customer assesses the potential use value and determines the price he is willing to pay. Bowman and Ambrosini's theoretical framework proved very helpful in studying value creation and value capture, and has also been adopted by scholars looking beyond the organizational level (e.g. Lepak et al., 2007).

The creation and capture of value by organizations has been studied in several research fields. Marketing scholars, for instance, specifically focus on value co-creation from a customer perspective (e.g. Grönroos and Ravald, 2011) or a 'service system' perspective (Vargo et al., 2008). In strategic management and organization studies, the focus is on understanding firm strategies and performance from a firm's perspective (e.g. Pitelis, 2009). Given the variety of disciplines concerned with value creation and value capture, it is not surprising that the theoretical concepts are subject to a considerable amount of confusion. Many scholars either focus only on value creation or do not distinguish between the two concepts at all. Researchers of the resource-based view, for instance, use the term value creation to refer to firm profitability (Makadok and Coff, 2002). We follow the stream of thought developed by Bowman and Ambrosini (2000), Lepak et al. (2007) and Pitelis (2009) and regard value creation and value capture as two distinct concepts.

Value creation is dependent on 'the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation' and who is willing to exchange a monetary amount for the value received (Lepak et al., 2007, p. 182). Lepak et al. (ibid.) suggest that the target user's (or buyer's) subjective evaluation of the novelty and appropriateness involved will determine the level of value that can be created. Value capture is used to describe a firm's ability to earn revenues (Teece, 2010) or to make profit. Regarding the latter, Bowman and Ambrosini (2000, p. 9), define value capture as 'the realization of exchange value [...] determined by

the bargaining relationships between buyers and sellers'. In a later contribution, the capture of value in knowledge-intensive firms such as PSFs is described as 'a function of a bargaining process between the actors involved, be they customers, employees or suppliers' (Bowman and Swart, 2007, p. 492).

The acknowledgement of value creation and value capture as distinct but interrelated processes is gaining more currency in organization studies and strategic management literature. As value is always co-created (a notion that both management and marketing scholars agree on (Pitelis and Teece, 2009; Vargo et al., 2008), Lepak et al. (2007) argue that it is important to regard value creation and value capture as different processes. The value creation source is often not able to capture or retain the entire amount of value that was created, but either loses or has to share this value with other stakeholders (ibid.). Pitelis (2009) further elaborates by stating that sometimes trade-offs between value creation and value capture are likely to be made and that managing these trade-offs is essential for firm strategy and performance. Hence, a clear distinction between the two concepts is necessary.

### § 3.2.2 Value capture by professional service firms

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Making profit is the primary objective of for-profit firms (Pitelis and Teece, 2009) and is key to their survival (Shafer et al., 2005). Studying the management of traditional business firms or entrepreneurial firms, important contributions on organizational value capture in the fields of strategic management and organization studies pay attention only to firm profitability (e.g. Baden-Fuller and Mangematin, 2013; Zott and Amit, 2007). Pitelis (2009), for example, discusses four generic value creation determinants and corresponding strategies that can help firms to maximize their profit. Lepak et al. (2007) explain how value can be captured at the organizational level by using concepts of competition and isolating mechanisms.

Research on value capture by organizations in knowledge-intensive and professional service contexts does not seem to transcend the monetary dimension of value either. Bowman and Swart (2007), for instance, examine rent generation and rent appropriation in knowledge-based industries from a focus on 'embedded capital'. However, for PSFs facing both commercial and professional pressures (Greenwood et al., 2005), profit is not the only value dimension of interest to the firm. Extending on the work of Bowman and Ambrosini (2000), we propose a third dimension of value, which we believe is helpful and even necessary to understand value creation and value capture in a professional service context. We use the term 'professional value'

to refer to the qualities or utility of an activity, product or service perceived by PSFs in relation to their needs, for example the aesthetics of a realized building or the expertise developed from the involvement in a certain type of project.

Literature on PSFs supports the idea of a professional value dimension at the organizational level of analysis. PSFs are knowledge-intensive firms that are hired by their clients for their expertise and skills (Løwendahl, 2005). Architectural firms belong to the category of 'classic' PSFs. Together with law and accounting firms, they possess the highest professional service intensity due to their low capital intensity and professionalized workforce (Von Nordenflycht, 2010). PSFs pursue service quality to satisfy their clients. But they are also dependent on service quality for their own organizational continuity (Tam, 2004). It helps them to build or maintain a professional reputation, which can be considered a key organizational resource (Boutinot et al., 2015). Reputation is especially important to PSFs because of the intangibility of the service and the importance of the individual professionals (Greenwood et al., 2005). As Greenwood et al. mention, a strong reputation helps firms to attract skilled employees and may help the firm to reduce its marketing costs or increase its fees. Clients actively search for firms they want to work with and they are willing to pay for a 'brand name'. As service quality largely depends on the firm's employees (Parasuraman et al., 1985) and the workforce is the main source of competitive advantage for PSFs (Hitt et al., 2001), keeping partners and employees satisfied is another organizational driver towards success and survival. Thus, besides profitability, PSFs have other organizational goals they need to attend to in order to stay in business.

When collaborating in a project, architectural firms and client organizations negotiate the content of the architect's service delivery and the corresponding fee. In this stage, which we refer to as 'the service offer', perceived customer use value and perceived professional value are 'qualified' and translated into exchange value (Callon et al., 2002; Helgesson and Kjellberg, 2013). Monetizing subjective perceptions is always difficult since something that is valuable to one person, might be completely worthless to another person. In creative service delivery, this difficulty is further increased because the actual outcome remains highly uncertain and unpredictable until the end of the interaction between firm and customer (Hutter, 2011). Hence, during the service delivery, perceived use value and perceived professional value continue to evolve.

In this study, we use the distinction between use value, exchange value and professional value to develop our theoretical understanding of the content and process of value capture by architectural firms. [Figure 3.1](#) presents an overview of our theoretical framework. The value creation of a PSF involves the creation of use value for the customer and the creation of professional value for the PSF. The value capture of

a PSF involves the firm's appropriation of professional value and exchange value. Use value is captured by the customer.

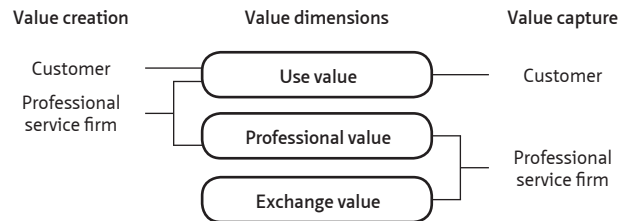


FIGURE 3.1 Theoretical framework of value creation and value capture in professional service delivery

## § 3.3 Methods

### § 3.3.1 Research approach and sample

To gain a profound understanding of how architectural service firms capture value, an inductive qualitative approach was chosen (Miles and Huberman, 1994). Twenty semi-structured interviews from nine cases of collaborating architects and clients were used to analyse what values architectural firms aimed to capture and how they pursued their goals in the interaction with their clients. The selected research approach and method are especially useful to gain a deeper understanding of how individuals, workgroups, organizations and institutions work in a context that is socially constructed (Gioia et al., 2013). They take into account the dynamics that are involved and allow new concepts to emerge.

The interviewees were chosen from large housing projects that were realized in the Netherlands in 2013 or 2014. New housing projects are responsible for 49% of the net turnover of Dutch architectural firms (Vogels, 2015). They represent an important focus for a large number of architectural firms and client organizations. The interview



sample consists of representatives of 9 Dutch architectural firms that have between 15 and 120 people; all the firms have design at the core of their business model. Three types of client organizations were selected: three developing contractors, three housing corporations and three project developers, all of which are very active in the development of large housing projects. One of the client organizations was only partially involved in the respective project. This firm (a developing contractor) took over the architect’s contract half way through the project. In this particular case, respondents from both client organizations were interviewed. Respondents from the architectural firms were the architects who had been in charge of the projects. They were involved in the firms as either partners or employees. The respondents from the client organizations were the responsible project leaders or directors. In each project, the architect and client representative had a direct relationship with each other during the interaction process. The architect respondents are referred to as A1–A9, the client respondents as C1–C9. Table 3.1 presents an overview of the sample.

RESPONDENT	TYPE OF RESPONDENT	TYPE OF ORGANIZATION
A1, A3	Architect	Architectural firm with 10–20 people
A2, A5, A6	Architect	Architectural firm with 20–40 people
A4, A7, A8a-b, A9	Architect	Architectural firm with 40+ people
C1, C4a-b, C7	Project leader or director	Developing contractor
C2, C5, C8	Project leader or director	Housing corporation
C3, C6, C9	Project leader or director	Project developer

TABLE 3.1 Overview of respondents

### § 3.3.2 Data collection

For each specific case, the architect was interviewed before the client interview, in order to cross-validate findings and to follow up on the architect’s responses. All interviews were conducted by the first author. A semi-structured interview protocol was used to address different topics. First, some introductory questions were asked to create a comfortable setting in which respondents were encouraged to open up about the personal and sometimes sensitive subject of value capture. Respondents were then questioned about their organizational value capture goals and their pursuing strategies. Finally, they were asked to reflect on the value creation and capture process. Each interview lasted approximately 90 min. Archival materials were collected to

prepare for the interviews and to expand the understanding of the organizational context. All interviews were audiotaped and transcribed verbatim. The transcripts were checked by the respondents and their suggestions for changes (these only concerned personal names) were implemented. This resulted in 554 pages of interview data. The architect interviews were used to identify the value capture goals and strategies of architectural firms. The client interviews served to reinforce, question or elaborate on the findings from the architect interviews.

### § 3.3.3 Data analysis

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Inspired by the methodology described by Gioia et al. (2013), four data analysis steps were used to enhance qualitative rigour in the inductive research. In the first step, the authors and two fellow researchers used the technique of context mapping (Sleeswijk Visser et al., 2005) to derive examples of targeted values and examples of pursuing strategies (informant-centric 1st-order concepts) from the architect interviews and categorize them into value capture goals and value capture strategies (researcher-centric 2nd-order themes). Iterating between empirical data and literature, the goals and strategies were linked to the overarching value dimensions use value, professional value and exchange value. In the second step, the entire data-set was examined systematically with the use of software program MAXQDA as a supporting tool. The initial analysis was further refined and complemented with all underlying concepts from the data. The first and second steps of the analysis resulted in an overview of the content and process of value capture by architectural firms. In the third step, the analysis in MAXQDA was used to identify trade-offs between the capture of different value dimensions. Explanations for and additional background to these trade-offs were derived from both architect and client interviews. The fourth and final step consisted of a consolidation workshop with practitioners, all of whom are involved in large housing projects. The workshop participants included four architect directors, two client representatives (a developing contractor and a client from a housing corporation) and a representative from the Royal Institute of Dutch Architects. During the workshop, the value capture trade-offs derived from the interviews were presented in the form of propositions and discussed within the group of participants. Both architects and clients confirmed that the trade-offs are indeed an important issue in practice. Trade-offs were supported from both perspectives with arguments similar to the ones that we found in the interview data.

## § 3.4 Findings

### § 3.4.1 The content of value capture: goals of architectural firms

Based on specific examples of value given by respondents, we found four overarching value capture goals of architectural firms that underlie a professional value dimension and an exchange value dimension. The goals and overarching value dimensions represent the content of value capture by architectural firms (see Table 3.2). The organizational value capture goals ‘reputation’, ‘development’ and ‘work pleasure’ explain the architectural service delivery’s worth to the firm in terms of quality or utility. These goals underlie the professional value dimension. The value capture goal ‘money’ is related to the architect’s fee. It underlies the exchange value dimension, which explains the architectural service delivery’s monetary worth to the firm.

Regarding the capture of professional value, architectural firms engaged in projects to develop or maintain a reputation in the field. They aimed to achieve a certain prestige and a high level of project quality. A7 said that his firm was automatically chosen by clients because of its prestige within the market: it has a solid reputation based on the delivery of high-quality projects and is appreciated by clients because of its way of working. Clients also mentioned the importance of the architect’s reputation. All client organizations selected architectural firms on the basis of their market reputation or expert reputation. For instance, the organization of respondent C6 approached this particular architect because the firm was well known to and appreciated by the municipality concerned. All architect respondents considered project quality an important goal. They pursued the highest quality possible to strengthen their reputation. In the interviews, project quality was often elaborated in terms of, for example, ‘good product’, ‘sustainable materials’ and ‘well-detailed’.

Second, architects aimed to further develop their organizations. They wanted to acquire knowledge, develop an increased competitive advantage, and aimed to innovate or develop a commercial relationship with their clients. A1, for example, initiated a new form of collaboration with his client. He said that he wanted to learn from it and intended to use it as ‘a formula’ to repeat a next time. A2 said he was always on the lookout for new kinds of services to deliver. He strove to increase his firm’s competitive advantage by anticipating the desires of clients. Although his comment was not directly related to the case that was the subject of the interview, A8a said that his firm

was trying to 'keep up with the vanguard regarding BIM'. They seized opportunities to further develop their BIM capabilities to stay competitive.

Third, architectural firms pursued work pleasure. Respondents said that their work had to generate joy, needed to be appropriate to the organization and its people, and was expected to deliver a sense of appreciation. Several architects engaged only in projects that were 'fun' to work on. A6 said that the 'fun' part was their main concern. For him and the other partners, it was not about the number of projects or the growth of the organization. They 'did not choose their occupation to keep a business with so many people going. That does not interest us at all'. A4 was also very concerned with the work pleasure involved in service delivery. He explained that when a project no longer suited his employees, his firm would 'simply resign from the project'. He gave an example in which one of the architects was caught up in the tussles between different stakeholders: 'Two days ago I said to her "Listen, if it continues like this we're just going to stop". [...] You can't make [your] people unhappy, can you?' The same respondent also mentioned appreciation as an important aspect of work pleasure. He wanted to get compliments from the people he designed for. In an ideal situation, the work is appreciated by both the paying customer and the user. Although A4 believed that client satisfaction could lead to future work, he was especially interested in compliments from users. These made him feel much more honoured, as a user actually inhabits the project. His argument, which was formulated in similar ways by all other architects, shows that architectural firms often seek user satisfaction or to make a contribution to society. These matters are directly related to the core of the architect's job and his work pleasure.

Finally, architects wanted to capture money to generate income and make profit. All architects agreed that their businesses were aimed at acquiring projects to earn a living and guarantee organizational continuity. A8a stated it as his firm's 'main goal from a business perspective'. Nine of the 10 architects did not explicitly mention profit as an important value to pursue. A1, however, said: 'I [...] have to admit that you do not start a firm unless you want to make profit. It is almost the single reason to start a company'. A4 even stated that profit is not necessary to run a successful architectural office: they only needed to keep their people (and themselves) in work and pay the expenses (including necessary investments). 'Everything on top is nothing but nice'.

VALUE DIMENSIONS	VALUE CAPTURE GOALS	EXAMPLES OF VALUE GIVEN BY ARCHITECT RESPONDENTS
Professional value	Reputation	<b>Prestige:</b> 'The big advantage is that you have prestige in the market [...] which allows you to automatically select clients' (A7) <b>Project quality:</b> 'You score new projects by delivering simply beautiful projects' (A4) ...
	Development	<b>Knowledge:</b> 'That kind of building, I would like to learn from that. That's fun too.' (A1) <b>Competitive advantage:</b> 'I just happen to see the opportunities that others don't see. And that generates added value'. (A2) <b>Innovation:</b> 'We're explicitly trying to keep up with the vanguard regarding BIM' (A8a) <b>Commercial relationship:</b> 'If this works, we'll have a formula and I'd like to repeat it again' (A1) ...
	Work pleasure	<b>Joy:</b> 'Our main concern is that the work is fun' (A6) <b>Appropriateness:</b> 'It just needs to suit us and our people' (A4) <b>Appreciation:</b> 'That you get compliments from the people you made it for' (A4) ...
Exchange value	Money	<b>Income:</b> 'The main goal from a business perspective is, of course, to acquire that project [...] To earn money so that we can keep working [...] (A8a) <b>Profit:</b> 'You don't start a company if you don't want to make profit' (A1) ...

TABLE 3.2 Value capture goals of architectural firms

## § 3.4.2 The process of value capture: strategies of architectural firms

### The service offer: selling potential use value

When offering their services for the project, architectural firms used various strategies to convince the client of their service's potential use value and to come to an agreement on the corresponding exchange value. Firms largely embedded professional value in their service offers. Strategies that were used to agree on the service offer showed (1) how firms tried to create both potential use value for their client (as well as for users and society) and potential professional value for their own firm; and (2) how firms tried to maximize exchange value. Some of the strategies reveal that potential professional value was prioritized over exchange value in the service offer.

## Proposing potential use value

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Respondents argued that targeting potential use value within the service offer often involved tensions. The requirements of client organizations were not always clear, making it difficult to anticipate the desired or required use value. Furthermore, actors sometimes had different opinions about what was the best thing to do.

Both architects and clients mentioned the strategy of discussing goals as a way to ease tensions. Because of their design approach, architects are able to help clients examine their project's possibilities or restrictions. In this way, potential use value can be 'predicted' much more accurately. In three of the cases, the architectural firm helped the client to acquire the project or to make the project feasible. Because of this early interaction, architects and client were aiming for the same goals.

Moreover, architectural firms used the strategy of offering unpaid services to highlight the potential use value of their service from a client's, a user's and/or societal perspective. Architects hoped that these unpaid services would convince the client organization of their firm's added value and thus guarantee their involvement in a project. A2, for example, had started working on a design without being asked to do so and did not receive any payment for this work. He believed that the existing design (for which a building permit had already been granted) did not sufficiently accord with the potential inhabitants and the surrounding area. He explained it as his organization's key value creation driver to make something better. By increasing the value for user and society, this architect hoped to generate work that was also interesting to his firm in terms of reputation. By proposing potential use value from a multi-stakeholder perspective, the architectural firm implicitly targeted professional value, which they aimed to capture once they were involved in the project. His client argued that because of the importance of the location, the municipality was indeed receptive to an ambitious architect and the client organization did not see any reason why they themselves would be against it.

Another strategy used by architectural firms in the service offer, involved offering non-profitable services. In case 1, the architect convinced his client (a developing contractor) that they needed to create an extraordinary, sustainable building and proposed that they both work on a cost-price basis to realize the ambitious and costly goals. The desirability of the product would attract buyers, make it an interesting investment for funders and convince the municipality to facilitate the process because of the PR value involved. The endproduct of the architect's service would have a considerable amount of commercial value and thus use value for the client organization. C1 also recognized the potential use value, as the project would definitely improve his organization's reputation. The firm, which was known in the market as

'dull, conservative and risk-averse', would instead exhibit entrepreneurial, risk-taking and innovative behaviour. Both organizations valued their reputation more than the project's profit. As C1 said: 'It's a component that you weigh [against profit]. This project is so distinctive, if we let it slip away, we will show that we do not dare'. Other architectural firms also deliberately offered non-profitable services. A6, for example, explained that although the engineering stage did not generate any profit, his firm still wanted to deliver services in this stage. The respondent feared that by giving away the engineering stage, they would lose their control over the project's quality and thus also lose the professional value of their service. All the architects agreed that delivering high-quality projects is reflected in their firm's reputation and is key to the architectural firm's unique value proposition. Client respondents were divided on the subject. Some highly appreciated and valued an architect-led quality control. In fact, they were willing to pay for it, as they recognized that high-quality projects also contribute to their own organizational goals, whether reputation-oriented or profit-oriented (by the increased amount of commercial value). Other clients, however, did not believe in this particular added value of the architectural firm. They considered architectural firms too expensive and mainly concerned with their own goals or felt that architectural firms no longer possess the required knowledge. As a consequence, they wanted the architect to play a mere design role.

#### **Agreeing on exchange value**

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The fee negotiation between architect and client was not a particular source of tension in the nine cases, because most of the projects had been initiated before the financial crisis. However, respondents noted that as a result of the limited financial possibilities during the last few years, the exchange value of the architectural service is currently under a lot of pressure.

Two of the architectural firms were applying a business approach to negotiate their fee. The firm of A8a and A8b determined the fee based on the entire process of the project. Because they knew that they would spend more hours than paid for to deliver a satisfactory service in the early design stages, they agreed on a fee that provided the possibility to earn the money back in subsequent stages. A8b called it an 'in-reverse process', which guarantees a more efficient process once the design is made. Since other actors are increasingly taking over parts of the architectural service delivery, such as the engineering work, A8b said that they were currently asking higher fees in cases of partial involvement. In the firm of A7, all financial negotiations were conducted by a financial director. This strategy enabled the firm to negotiate higher fees:

*We ourselves often settle for less because we are committed to the project. I think that our total fee, if you look at it firm-wide, would be 20 to 30 percent less if we were to*

*conduct the fee negotiations ourselves. [...] and the funny thing is that most of the clients are actually fine with it, since it also avoids risks.*

The respondent said that clients often look for this kind of commercial approach. C6 went even further and argued that many architects are currently 'giving away territory' by deliberately avoiding a commercial approach. 'They consider finances something dirty. They are for the higher art. Actually, it's a bit cowardly. They try to be the white knight against the evil world'. C6 explained that getting involved in the financial aspects of the project and being more business-minded is necessary for architects to avoid losing key parts of the project to other actors.

Offering commercial value to the client was another strategy that we derived from our data. A2 indicated that he always tries to negotiate a higher fee by translating his value proposition into things that will be interesting to the client. Delivering higher product profitability by generating more net area is one of the examples he gave. A7 explained that they always translated the quality of their contribution into commercial value. In that sense, their fee had to match not the amount of time spent by the firm, but what the client was willing to pay for the service. The strategy was also used by A8a and A8b, who had recently started to sell clients or users separate services, such as energy scans or sustainability packages.

Some of the architectural firms were knowingly or unknowingly exploiting their reputation to negotiate their fees. Although not an active strategy like the others, we believe it is a strategy worth mentioning, as it was mentioned by several clients and directly relates to one of the architectural firm's main value capture goals. The firm of A9, one of the famous Dutch architectural offices, was considered quite expensive by its client, but as the firm was expected to deliver a design that no other firm would be able to match (and indeed succeeded in doing so), the organization of C9 was willing to pay for the firm's 'brand name'. C5 said that a 'successful track record' helps architectural firms to convince their clients to take a leap and pay a little more than anticipated.

### The service delivery: safeguarding organizational value capture

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The strategies that architects used to ensure that their firms would actually capture value during service delivery were mainly aimed at safeguarding or maximizing the capture of professional value. Some strategies resulted in additional use value for the client, whereas others neglected or even harmed the client's use value. Although architects mentioned strategies to pursue and secure money from the capture of exchange value, these strategies were either not fully deployed or not even initiated.



## Capturing professional value

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During service delivery, architectural firms challenged the original starting points of the projects. By continuously improving their designs, they aimed to maximize the creation of use value and the capture of professional value. Both architects and clients considered it the architect's primary task to deliver an optimal solution to the client's and user's needs. Respondents agreed that an ongoing discussion between architect and client regarding the content of service delivery was necessary to determine and align key goals and that it contributed to the project's quality.

In five of the nine cases, the architectural firms delivered additional quality. They decided to spend more time than they had agreed upon with the client to enlarge their firm's professional value capture while simultaneously enlarging the use value for the client. One example was derived from case 3, in which an external drawing office was hired by the client to deliver the engineering work. A3 claimed that executing the project according to the work of the drawing office would not match the standards of his firm. He believed that it would harm his firm's reputation unless the quality was improved. Moreover, it was related to his own personal work pleasure: 'I would not be able to motivate myself every day to work on a project whose potential level of quality could not be achieved'. The architect decided to work extra hours to guarantee the desired level of quality. A1 followed the same strategy. He spent more hours than anticipated to ensure that the project quality the team had in mind would be achieved. 'You notice during the process that it is getting out of hand, but you just continue working. You want to finish it, because we find the building far too nice'. The decisions of A3 and A1 show that work pleasure and reputation were intentionally overruling business decisions. In both cases, enlarging the capture of professional value also contributed to additional use value. Although clients did not necessarily need the extra use value that was generated during the stage of service delivery, they were often very pleased with it. C2, for instance, said that as a housing corporation they did not have the goal to build something with 'allure'. However, they were very proud that they ended up with it.

Architectural firms also delivered non-valued additional quality. Firms spent additional time creating project quality that contributed only to the capture of professional value rather than add any value for the client. A8a, for example, spent a lot of time convincing his client and the contractor to attach panels without using screws, even though he knew that no one would care or see whether or not screws were used. 'In the end the client decided to settle for less. And that sucks! And there is basically no-one who sees it'. The architect said that it bothered him immensely that screws had to be used, but that it was only a personal feeling. In this example, the architectural firm was not able to capture the amount of professional value they had targeted, because

the desired level of work pleasure was not met. C3 stated that architects often deliver services that are not beneficial to the client or the user. He illustrated his point by using an example in which an architect made a very elaborate drawing, while the decision-making process at that time would have benefitted more from a very rough sketch. He also mentioned an example in which a window frame was designed to contribute to the building's appearance (and thus the architectural firm's reputation). It was commented on by almost every single user, because users could only choose one particular kind of sunscreen.

Another strategy involved buying additional quality by using a part of the fee. A6 and C6 shared the cost of a more sophisticated window profile. The architect believed that it was necessary to enhance the project's quality and thus maintain and strengthen his firm's reputation. The client, who was overwhelmed by the architect's commitment, decided to contribute because he could see the added value of the profile in terms of expression and societal value. Although the architectural firm and client organization were both happy with the way the strategy turned out, this particular strategy was used in only one case.

### **Capturing exchange value**

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Although the architects' fees were originally sufficient to accomplish the service offers, architectural firms experienced great difficulties holding on to the money that they received. Five respondents claimed that they only made a small amount of profit. One of the firms even ended up making a financial loss. The two strategies that firms used to capture exchange value during the interaction with the client were either not successfully executed or not executed at all.

Managing short-term performance was used as a strategy by the firm of A5 to secure the firm's profit on the project. Respondent A5 said that the office manager, who was also a partner, was in charge of the firm's finances. His primary task was to manage the firm's short-term performance. However, the respondent had to admit that when it came to difficult decisions, the financial partner was overruled by the architect partners. If a project was heading towards financial loss:

*... the office manager would say 'Perhaps we have to go a little bit less far in our engineering', but we [the architects] will always go against it because we say 'The moment you start sacrificing quality, we're giving away our unique selling point'. So in the end it would be better to take a loss but provide good quality. That's in the long run, at least in our view, even more profitable than pursuing profit on the project.*

In this firm, the office manager's task of safeguarding the firm's short-term performance was made difficult by the organization's aim to maintain its reputation and ensure its long-term performance. C7 was convinced that architectural firms, like any other businesses, should be able to capture good money. For this to happen, he believed that it is crucial for architects to finish their processes. At a certain moment, a product needs to be accepted the way it is. 'It is finished. You have to accept that you cannot keep modelling your own child. And you do not have to redress it [the child] every time, because that costs money'.

One architect mentioned renegotiating the fee as a strategy to ensure the capture of exchange value. A7 said that, although they were always able to negotiate the right fee at the start of a project, they sometimes ended up thinking 'we should have renegotiated sooner'. When their assignment changed during the process, they considered whether they should question their fee. 'Let's not do it, for the sake of the relationship. And then it turns out that we should have done it'. A7 said that not renegotiating resulted in more difficulties within the team and consequently less work pleasure. The firm was no longer able to provide adequate services, which was not good for the collaboration in general. He explained that in these cases they would have been better off renegotiating. Building on the example given by A7, not renegotiating seems to jeopardize the relationship between partners instead of safeguarding it. A9 regretted that their initial negotiation approach had not been entrepreneurial enough. They had agreed on a fee that did not increase when the building costs increased and they did not undertake action to adapt the fee during the process.

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## § 3.5 Discussion

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The purpose of this study was to gain knowledge on the value capture of architectural firms to better understand how architects deal with competing organizational goals. Interview data from nine housing projects indicate that the use value, professional value and exchange value dimensions, all of which were considered necessary by the architects to run a viable business over time, were not always treated as equally important by the architectural firms. Both in the service offer and during the service delivery, strategies were used to trade off value dimensions. We found that architectural firms often deliberately prioritized the capture of professional value over the capture of exchange value. Professional value capture was sometimes even prioritized over the creation of customer use value. [Table 3.3](#) provides an overview of

the value capture strategies that we identified from the interview data and shows the specific strategies in which tradeoffs between value dimensions were made.

VALUE DIMENSIONS	VALUE CAPTURE STRATEGIES USED IN THE SERVICE OFFER	VALUE CAPTURE STRATEGIES USED IN THE SERVICE DELIVERY
Professional value	Discussing goals Offering free services <sup>a</sup> Offering non-profitable services <sup>a</sup>	Delivering additional quality <sup>a</sup> Delivering non-valued additional quality <sup>a/b</sup> Buying additional quality <sup>a</sup>
Exchange value	Applying business approach Offering commercial value Exploiting reputation	Managing short-term performance <sup>c</sup> Renegotiating fee <sup>c</sup>

<sup>a</sup> Strategies to trade off exchange value for professional value

<sup>b</sup> Strategies to trade off use value for professional value

<sup>c</sup> Strategies perceived to trade off professional value for exchange value

TABLE 3.3 Value capture strategies of architectural firms

The ‘trade-offs in value capture’ that were made by architectural firms can largely be traced back to the value capture goals ‘work pleasure’ and ‘reputation’. Without the prospect of work pleasure, architects decided not to engage in a project and sometimes considered resigning from the project once it had started. In this respect, work pleasure can be seen as a necessary condition to get or remain involved in work. Reputation and development on the other hand, are key to future work and organizational continuity. Firms need a strong reputation, as a strong reputation automatically attracts clients and is often used as a selection criterion by client organizations when choosing an architectural firm. It also helps firms to negotiate a higher fee. The organizational value capture goal ‘development’ appears to be closely linked to firm reputation and work pleasure. Architectural firms use the development of their organization to strengthen their reputation in the field.

Literature has already established the importance of reputation (e.g. Boutinot et al., 2015; Greenwood et al., 2005), development and work pleasure (e.g. Canavan et al., 2013) for the performance of PSFs. Our data underline this importance, but go further in explaining how firms pursue professional value over profit (exchange value) and sometimes even client (or user) satisfaction (use value). Thus, although reputation, development and work pleasure are necessary for the firm’s survival, they also jeopardize its short-term and long-term performance. Strategies to gain reputation, development and/or work pleasure often resulted in a smaller fee than would have been possible or the usage of the fee as an investment (of time or money) to guarantee the capture of professional value. Capturing sufficient exchange value

is vital to ensure firm profitability and a viable business in the short run. It is also key to the organization's long-term survival as it is needed to make investments (e.g. in IT or knowledge development) in order to keep up with a changing industry. Realizing sufficient use value is necessary to guarantee client satisfaction. Firms that deliver professional services depend greatly on this satisfaction as it leads to long-term collaboration and future assignments, and contributes to their market reputation.

Interestingly, most strategies aimed at the capture of professional value hinder severely the firm's capture of exchange value, whereas strategies to guarantee exchange value seem to have no negative impact on the firm's ability to capture professional value, at least not in the stage of the service offer. Applying a business approach to negotiate a higher fee, for example, still resulted in a professional value basis that A7 was pleased with. He said that other architects were sometimes afraid to be commercial in their approach, because being too concerned with money instead of the 'architect's higher purpose' could jeopardize the relationship with the client or the image of the firm itself. He also said that in his case, the client was actually happy to have an architect with a commercial approach, because it resulted in a much smoother process. Translating the value of the architectural service into interesting things for the client to maximize the amount of exchange value, such as in the case of A2, even contributed to the capture of professional value. The architect was able to deliver more services than originally asked for, giving him better opportunities to safeguard the professional value that was of interest to his firm.

In the service delivery stage, architects were much more afraid that strategies to capture exchange value would have a negative impact on the firm's ability to secure use value for the client and capture professional value. Respondent A5, for example, believed that too much time management would harm the quality of the project and thus his firm's reputation. Other architects avoided fee renegotiations to secure their relationship with the client. Many clients, however, said that it would be much more beneficial to firms and the profession at large to adopt a more commercial approach. Architectural firms seem to recognise a certain risk in focusing on the capture of exchange value. Our data, however, suggest that it is perfectly possible to use strategies that are aimed at capturing exchange value without harming professional value. The other way around seems to be much more difficult.

Our findings, which we summarize in [Figure 3.2](#), contribute to the knowledge and understanding of the conflicting goals and corresponding tensions that PSFs are dealing with. By distinguishing between use value, professional value and exchange value, and focusing on the firm strategies used to balance different and often competing goals, we provide a better understanding of why architectural firms are having difficulties making profit. As the interviews revealed, the profit of architectural

firms was already on the line in projects initiated before the financial crisis and with a sufficient fee. Given the challenging economic situation, it is especially important for architects to arrive at a more carefully balanced value capture process.

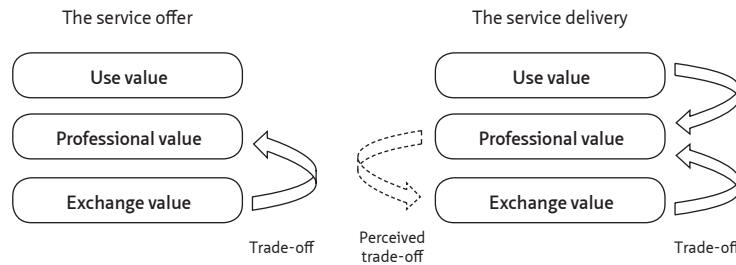


FIGURE 3.2 Trade-offs in value capture

Our study may have implications for both other types of PSFs and 'hybrid' organizations that are responding to both commercial and societal goals (Smith and Lewis, 2011). It would be interesting to see whether the findings of our study are also representative of these other types of firms. There might be substantial differences between how firms with a high professional service intensity (Von Nordenflycht, 2010) and firms with a low professional service intensity handle the value capture process.

To gain a better understanding of how value capture difficulties might be overcome by organizations both individually and in collaboration with other organizations, we believe it is necessary to develop a deeper theoretical understanding of value capture and to extend the scope of empirical research on the topic. Further research, preferably using a real-time longitudinal approach, into how tensions arise, evolve and are handled in firms that deal with multiple goals, is very much encouraged to improve the understanding of the value capture process of these firms and to uncover possibilities for enhanced value capture. Considering the difference we found in our data between the potential value that the firm agreed upon in the service offer and the actual value that was captured by the firm at the end, we argue that it is important to take the whole process of interaction between firm and client into account when studying organizational value creation and capture in the context of professional service delivery.

## § 3.6 Conclusions

The value creation and value capture by PSFs revolves around different and often competing organizational goals. To fully understand how firms are able to create and capture value in the interaction with their clients, professional goals need to be taken into account. We expand on the existing theoretical concepts 'use value' and 'exchange value' and propose 'professional value' as a third dimension of value at the organizational level of analysis. Use value refers to the quality or utility that is created for the customer, exchange value refers to the price that is paid, and professional value refers to the quality or utility that is created for the PSF.

Strategies that are used by architectural firms to capture value in the interaction with their clients, provide evidence that architects often prioritize the capture of professional value over the capture of exchange value and sometimes even over the creation of customer use value, either in the service offer or during service delivery. This is largely due to the organizational value capture goals reputation, development and work pleasure. This study confirms the importance of professional value for the continuity of architectural firms. However, it also reveals the constraints that professional value capture imposes on both short-term and long-term firm performance.

Interview data from nine housing projects show that strategies to pursue professional value hinder architectural firms in their effort to capture and safeguard sufficient monetary value. In the service offer, architects offer free services and non-profitable services to ensure professional value capture. During the service delivery, firms deliver additional quality or buy additional quality. One strategy that was used during the service delivery showed how architectural firms even trade off customer use value for professional value.

This calls for a better balance between use value, professional value and exchange value to ensure client and user satisfaction, architect satisfaction and firm profitability. A well-developed and carefully managed balance is vital for the organizational sustainability of firms dealing with multiple competing goals. This suggests that future business models for architectural firms need to facilitate non-conflicting strategies for the creation and capture of different value dimensions.

This paper provides an overview and better understanding of the constraints and opportunities for value capture by architectural firms in the interaction with their clients. It thus contributes to the development of theory on organizational value capture from a professional service perspective. As our data show, making money by capturing exchange value is not enough to run a viable business in architecture.

Bringing professional value into the discussion of organizational value capture is necessary to develop a better understanding of how firms responding to different goals capture value and how this process can be improved. This paper specifically contributes to the field of construction management by introducing the concept of value capture from management literature as a helpful construct to elaborate on existing studies of value and value creation.