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ESTABLISHING VIABLE ARCHITECTURAL FIRMS

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1. INTRODUCTION

According to the South African Institute of Architects (SAIA), many South African Architectural firms are struggling to survive and prosper.¹ This article, based on a literature review, aims to engage with this problem by:

- Providing guidelines on the establishment of viable architectural firms.
- Stimulating thinking about the establishment and management of financially viable architectural firms.
- Stimulating discussion on the reasons for the high failure rate amongst architectural firms and the loss of trained professionals.
- Suggesting ways in which Continuing Professional Development (CPD) offerings can be made more comprehensive and relevant.
- Encouraging architectural firms to review their business strategies, and thereby contribute to a reversal of the trend of failing firms and architectural professionals leaving the profession.
- Contributing to efforts that will allow the profession to play its rightful role in the development of South Africa.

In pursuit of these aims, this article reviews the advantages for architectural professionals in starting their own firms, the common types of architectural firms and the aims commonly associated with this form of entrepreneurial venture. Thereafter, the processes that should be followed in designing a new firm are considered, and topics that should be included in the development of architectural professionals, such as CPD offerings, are suggested.

2. ENTREPRENEURSHIP FOR ARCHITECTURAL PROFESSIONALS

The reasons for the difficulties experienced by architectural practices are not obvious. While some might suggest that an oversupply is to blame, the numbers of South African

architectural professionals as a percentage of the population is much lower than that found in countries with similar levels of socio-economic development.² In addition, architects and senior architectural technologists have been included in the latest Provisional National Scarce Skills list of the Top 100 Occupations in Demand, published by the South African Department of Higher Education and Training.³

This is a problem that must be addressed and it cannot wait until all the causes have been determined. Huge investments in time, money and effort are going to waste as qualified persons leave the profession. The shortage of architectural professionals impacts negatively on the socio-economic development of the country: SA's efforts to create employment through infrastructural projects⁴ are, and will continue to be, compromised by periodic skills shortages in this sector. Furthermore, a positive and well-functioning built environment with the infrastructure that can support economic and social development is essential for the country's long-term economic growth. Inadequate infrastructure increases the cost of doing business which, in itself, works against the ideal of job creation.⁵

Until the causes of the problem have been determined, it should be considered that one of the contributing factors might be that architectural professionals are not equipped to envision, start or manage viable and enduring firms. The starting and managing of an architectural firm, and the business undertaking it represents, somehow does not receive due attention in professional journals, CPD offerings, practice guidelines and the South African Council for the Architectural Profession's (SACAP) qualifying examinations.

By contrast, the American Institute of Architects (AIA), since 1920, has been publishing comprehensive guidance on the business and administrative dimensions of architectural firms.⁶ The Royal Institute of British Architects (RIBA), in 1962, undertook what they described as a "watershed study" titled "The Architect and his Office".⁷ The study revealed the need for an increase in the awareness amongst architectural professionals of the importance of the business side of an architectural firm. Architectural professionals – like all entrepreneurs – must operate profitable and resilient businesses.⁸ A viable and well-managed firm is a prerequisite for consistent and enduring design excellence. In reality, many architectural professionals struggle to make a living because they believe that quality design will lead to decent clients and a fair income. The truth is that the business dimension of an architectural practice is as important as producing the right drawings.⁹

Businesses that are started in response to economic opportunities tend to perform better than those started out of necessity.¹⁰ This indicates that firms that are started because of an

entrepreneurial disposition will have a better chance of success than those started when architectural professionals are retrenched, firms break up, or people see no other option for themselves. It is important that young architectural professionals and students be encouraged to start their own practices as soon as they have sufficient experience, and that they are equipped with the knowledge and skills for such an entrepreneurial endeavour.

3. STARTING AN ARCHITECTURAL FIRM

Greater freedom of expression and flexible working conditions are some of the advantages enjoyed by architectural professionals who decide to start a firm¹¹. Other benefits include:¹²

- Recognition that is in direct relation to effort.
- Greater control over design and issues of personal importance.
- Involvement in the full range of architectural services.
- Liberty to work with people of your own choice, i.e. spouses, friends and likeminded colleagues.

In general, entrepreneurs start their own businesses for a variety of reasons that can be grouped as either “push” or “pull” factors¹³. The “pull” factors are those that encourage people to change from their current position and become entrepreneurs. These include:

- Freedom associated with working for oneself.
- Sense of achievement and satisfaction gained from starting a successful business.
- Recognition and status associated with being a successful entrepreneur.
- Personal development and freedom to pursue one’s own ideas.
- Personal wealth and potential financial benefits of entrepreneurship.

The fact that Architecture is a visual art form means that architectural entrepreneurs, like other art entrepreneurs, also respond to two types of stimuli: extrinsic, referring to contextual and business drivers, and intrinsic, involving the internal desire to create something aesthetic that provides a sense of achievement.¹⁴

The founders of architectural firms are entrepreneurs not dissimilar to other small business owners.¹⁵ Most founders aim to receive fair compensation and the opportunity for design expression. For most professionals, success comprises professional respect, producing interesting work and earning an adequate income. What is quite apparent here is that there are significant positives and advantages to starting a new firm. While different authors might approach entrepreneurship from different angles, there is broad agreement regarding the

important role entrepreneurs and entrepreneurship play in the success of businesses and national economies, i.e. employment creation and economic development.¹⁶

The process of establishment and managing of a new business should comprise the following:¹⁷

- Identifying a viable opportunity.
- Applying ingenuity and creativity to conceptualise something that can take advantage of the identified opportunity.
- Gathering resources and creating the conceptualised enterprise.
- Establishing the new enterprise.
- Managing it.
- Accepting risk.
- Reaping the anticipated reward.

Because of the advantages associated with opportunity-driven entrepreneurial ventures, opportunity recognition and starting a firm in response to a viable opportunity are key to the success of the firm. The high levels of creativity associated with architectural professionals should stand them in good stead during this process.

Closely associated with responding to a viable opportunity, is the need to differentiate the firm from other firms and to adopt an appropriate competitive approach. There are six archetypes that the firm could consider:¹⁸

- Innovators.
- Project-type specialists.
- Full-service client partners.
- Community contributors.
- Project Management experts.
- Cost and quality leaders.

In addition, the following competitive approaches can attract clients:¹⁹

- A new product/service.
- Greater value.
- New relationships.
- More flexibility.
- More responsiveness.

Throughout this process, the following essentials should be kept top of mind: ²⁰

- Have a clear vision and create a long-term plan.
- Develop and use a network of 'contacts'.
- Build relationships.
- Control overheads.
- Make a commitment to technology.
- Get advice from mentors.
- Differentiate the firm.
- Understand client values.
- Keep stakeholders informed.
- Maintain a balanced life.

Additionally, the following models or entry strategies can launch a firm: ²¹

1. Securing a major client who is willing to offer support with a visible project.
2. Building a 'House for Mother'.
3. Teaching part-time until the firm is established.
4. Finding a niche and filling it – by far the most viable and sustainable option!
5. Relying on one of the founders' sales skills and ability to build client relationships.
6. Having an established architect lending their support to a younger firm.
7. Getting a former employer to pass on excess work.
8. Breaking away from an established firm as a group, to form a new firm.
9. Starting with small projects and building credibility slowly.

Firms that do not respond to an available opportunity, fail to differentiate their offerings, do not adopt a competitive approach or operate without a strategy are less likely to endure.

4. FIRM DESIGN

The design of one's practice can be likened to the design of a house:²² it should respond to the needs and preferences of its owners and environment, and should fit the various preferences, approaches, strategies and models that apply to the particular case.

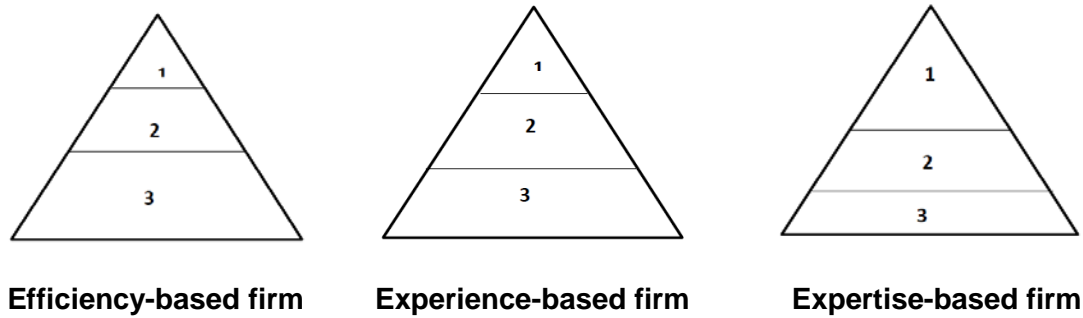
The firm's organisation could be flexible and unconventional, or formal and more conventional, reflecting the nature of its leadership; but bigger firms, like bigger buildings, require a more rigorous structure. Small firms can be grouped according to the 'Profit/Satisfaction Matrix' shown in Figure 1. Founders of firms must be mindful of this aspect when they choose a business models, as described in the next section.



Figure 1. Profit/Satisfaction matrix²³

In general, there are three business models that founders of architectural firms can choose between.²⁴ The first is when the firm is organised for efficiency on routine assignments, mostly to clients who require a product instead of a service. In this model, the firm would have a formal, centralised structure and would strive for a stable environment, with a focus on strong delivery of relatively conventional designs. This type of firm (see Figure 1) could be low on satisfaction but high on profitability, if managed appropriately.

This type's profitability depends on standard processes and the re-use of repeatable elements.²⁵ It implies more routine work and the employment of relatively junior staff, and its typical organisational structure is illustrated in Figure 2.



Key: 1 – Partners 2 – Project Leaders 3 – Technologists/ Draughtspersons

Figure 2. Typical structure of different firm-types

Firms could alternatively be organised with a focus on experience or service, by providing designs and services tailored to the client’s needs. Firms of this type are “strong service” firms. This type of firm is organised with a view to delivering experience and reliability on complex projects. They function best with a flexible structure in a highly complex environment that could provide greater satisfaction and profits (see Figure 1) than an efficiency-based firm. The profitability of this type depends on the execution of well-managed projects and the skilful use of staff and resources.²⁶ It implies a mix of tasks and staffing levels that should comprise more senior staff and fewer technologists/draughtspersons (see Figure 2).

The third type of firm, the expertise-based or “strong idea” type firm would be organised for innovation. Here, firms will strive to provide innovative solutions to unique, often complex problems. They should also have a highly flexible and informal structure, operating in a changeable and flexible environment that could provide great satisfaction and profit (see Figure 1). These firms will focus on new or innovative ideas and will be experience-based. Their profitability depends on the ability to charge high fees for unique services. This implies that the firm requires more non-routine work and hence more senior staff: more partners and project architectural professionals and less technologists/draughtspersons (see Figure 2).

A fourth type of firm – the “anything that comes through the door” type – is quite common. These firms are built on a business plan that accepts ‘all-comers’. They sometimes prosper based on the wide, generalised knowledge they acquire over time. However, it also means limiting the depth of professional knowledge and experience the firm might require in attracting and performing complex, more challenging (and rewarding) projects. Thus, these firms become unfocused and spread thin, lacking strategic advantage and making themselves vulnerable. Due to their lack of focus or intentionality, they may survive only due

to their core competencies, personal connections and the interests of firm leaders, and may flounder when these influences wane.

This firm type should, however, not be confused with firms that adopt “multi-specialisation” as a core strategy.²⁷ This is a conscious business strategy where bigger firms seek diversity in their offering by specialising in a few selected project types. This strategy is adopted in order to minimise their exposure to the risks of a small client-type-base, but without losing focus as in the case with the “all-comers” type.

The way in which the different firm types or business models relate in terms of specialisation and capacity to do complex projects is illustrated in Figure 3.

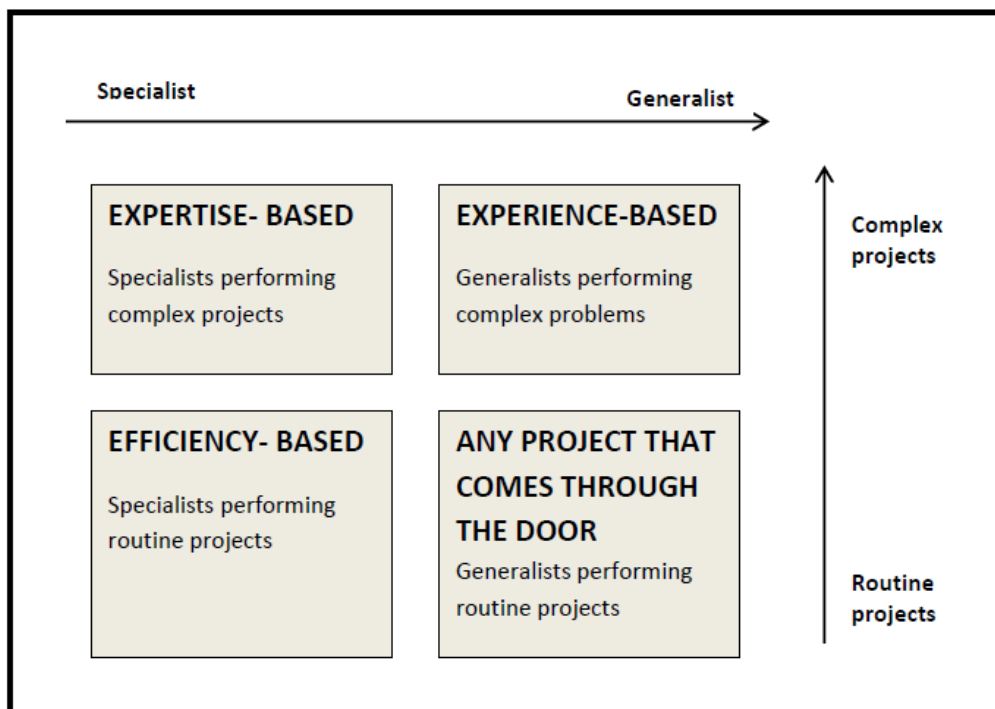


Figure 3. Business model matrix²⁸

This does not imply, as the foregoing might suggest, a static situation – firms change over time for a variety of reasons as they move through their lifecycles. The founder(s) of an architectural firm spend the first 10 to 15 years working very hard to establish a reputation, a reliable client base, dependable production and delivery processes, a competent staff component and a network of strategic alliances, while gaining experience and knowledge. After this initial phase, firms often reach maturity and relative stability, which could last until

the firm is about 15 to 20 years old. During this time, growth and other changes will require that the firm be “reinvented” and restructured in keeping with changes in the firm’s socio-economic context.²⁹ This might imply a change in the firm’s business model, or a move from one type to another.

5. FIRM SIZE AND VALUES

Most South African architectural firms are small. Information obtained from SAIA shows that, in 2013, 33 percent of South African architects’ firms fell into what they termed the “micro” category and comprised only a single person, another 27 percent fell in the “small” category (two to three persons), and 30 percent in the “medium” category (four to nine persons). Only eight percent fell in the “large” category (10 to 20 persons), with two percent making up the “macro” category (20+ persons).

This is not unusual – most British practices are also small, with over half their firms comprising less than 10 persons.³⁰ It must be understood that having a small firm is not a sign of failure and that many architectural professionals, like many other professionals and business owners in general, have no ambitions to grow. Being small has definite advantages and some firms simply do not aspire to grow, preferring to have an informal studio atmosphere. However, some others have found that small “just isn’t big enough” and have opted to grow, in the case of South African firms, to approximately 200 persons.

All of the above should still be regarded as small businesses.³¹ Two types of small businesses can be found – namely ‘Lifestyle firms’ and ‘Growth firms’. ‘Lifestyle firms’ are set up primarily to perform an activity that the owner-manager enjoys or gets satisfaction from, whilst providing an adequate income... the aim is not to grow. Many architectural firms will fall into this category but the description should be expanded to include small businesses that have other aims as the main objective, such as artistic endeavour and quality work, rather than income or lifestyle. ‘Growth firms’ are set up with the intention of growth, usually by more entrepreneurially-minded individuals.

These descriptions are somewhat similar to a distinction between ‘practice-centred’ and ‘business-centred’ firms.³² Practice-centred firms adopt strong practice values and see architecture as a calling and a way of life. They typically have serving society as their main goal and strive to produce work that represents good examples of their profession. They will assess their performance qualitatively and ask questions like, “How do we feel about what we are doing?” or “How did the project turn out?” Business-centred firms do what they do as

a means of earning a (good) living and will assess their performance quantitatively, by asking “How did we do?”, while relating that to tangible rewards.

6. FORMALISING YOUR PLANS

Having considered the options outlined above and selected the appropriate model, ideas and concepts need to be formalised. There is a direct correlation between planning and business performance.³³ Developing a business plan allows the founders to crystallise their initial ideas, and to think through and find solutions for many of the problems they might face before they actually arise.³⁴ At the outset, architectural professionals need to finalise the structure of the firm they are establishing, identifying markets, deciding on the types of projects they will take on and how they are going to get appointed to do the projects they are looking for. To this must be added their fee policy and profit levels, staff requirements and, most importantly, financial requirements and funding sources of their new firm.³⁵ The founders will also have to give careful consideration to project and decision-making processes, which should include organisational structure, staff recruitment and development, sales message and the type of client they wish to engage, marketing approach and organisation, pricing, leadership and management.³⁶

In making these choices, the founders will have to begin with the end in mind by deciding where they wish to go to – i.e. what they wish to become, how they will get there and, finally, what they will need and where they will get it. This should be done via a two-stage process: compiling a strategic plan followed by a business plan.³⁷ The strategic plan should start with a vision statement outlining their long-term vision, and a mission statement describing what the firm will do – i.e. its reason to exist and the values it will uphold. The strategy to be followed in achieving these aims must then be developed. The most common tools here are the PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis framework, used to review the context within which the firm will operate, and the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis framework, which formulates how the firm can achieve its vision within the existing context.

The strategic planning process should result in plans, goals and objectives that will set out how the firm intends to realise its vision. Of particular importance are a marketing plan, cost estimates and budgets. These last aspects will be vital for the next phase – i.e. developing a business plan.

A business plan is a formal written plan, prepared primarily for the benefit of external investors. It is a tool for analysis, synthesis communication and a call to action.³⁸ Developing

the plan will force the founders of the new firm to engage with the aspects mentioned above and to apply their minds to them. Thus, it also has many internal benefits, and should not be regarded as unnecessary. While there are many templates that can be used, it should at least clearly articulate the firm's vision and mission statements, an overview of key objectives, an analysis of the market environment, the strategy to implement, financial forecasts, anticipated activities, and the people who will own and manage the firm.

The decisions made should also find expression in the legal and financial structures and policies that are set up for the firm. Professional legal and financial advice should be sought in order to create a framework and systems that will protect the interests of the founder(s), collectively and individually, and that can maximise the financial benefits derived from the firm's income.

7. DEVELOPING ENTREPRENEURIAL SKILLS

Successful architectural firms are owned and operated by entrepreneurs "... who might be talented designers, but most assuredly are savvy business people".³⁹ Therefore, running a viable and profitable practice will require a range of important business skills.

Research has found that successful entrepreneurs purposefully acquire certain skills to enhanced the performance of their businesses.⁴⁰ The skills required can be divided into key skills comprising those that, when lacking or absent, would lead to zero performance, and supporting skills, the absence of which would reduce performance yet not completely destroy the business. Key skills comprise skills and factors like motivation, opportunity recognition, the ability to gather resources, financial management, human resource management, marketing and technical skills. The aforementioned are critical to the success of all firms, and architectural professionals should ensure that they acquire and maintain them. As such, these are topics that should be offered to architectural professionals as part of CPD offerings.

Supporting skills comprise general management skills, computer literacy, building and maintaining human relations, networking, planning, creativity, innovation, role-model interpretation, calculated risk taking, conducting research and development, business systems management and communication skills. These are further possible topics for CPD courses.

While architectural professionals would have developed or acquired many of these skills, particularly technical skills, during their education and years in practice, many of the skills listed might be lacking or require updating. In the absence of relevant CPD courses, architectural professionals will have to seek further training and support from organisations such as the Small Enterprise Development Agency (SEDA) and a host of other organisations that provide training, funding and support to entrepreneurs. However, many general offerings are not customised to meet the unique needs of architectural professionals. Hence, setting up and running a viable and profitable practice would also require further customised mentoring and training, including a review of the implications (advantages or obstacles) inherent in the more than 50 statutory acts that impact the South African built environment.

Educational programmes at Schools of Architecture are already overburdened by the theoretical and technical content they have to include. In addition, there is substantial agreement that entrepreneurial education and training should ideally be offered in an experiential environment.⁴¹ The substantial experience and knowledge built up by founders and managers of enduring architectural firms would be of the utmost value in this regard. Therefore, it would seem there is a need for specific architectural entrepreneurial training programmes for practising architectural professionals, supported by CPD courses offered by voluntary organisations.

8. CONCLUSION

The drop in the number of registered architectural professionals and architectural firms in SA is a clear indication that practising architecture in South Africa (as elsewhere) is no simple task and that the pressures that firms are subjected to are diverse and substantial. Following the correct procedure in starting a firm can provide a more robust “package” in which the architect can practice his or her art on an enduring basis. This is still no guarantee of survival or success (by whatever definition), **but these things are a prerequisite**. Many other factors, not the least of which is design (including technical prowess) and the ability to attract, deal with, enthuse and retain clients, will ultimately also determine the future of a firm.

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²Based on the numbers of architectural professionals registered with SACAP, multiplied by two (the Council for the Built Environment estimates that 50% of architectural professionals are unregistered), the results of 2011 estimated that the population of South Africa stood at 52m. According to this calculation, the ratio of architectural professionals to the total population stands at more than 1:3 650. By comparison, Monditalia (cited on Archdaily – <http://www.archdaily.com/501477/does-italy-have-way-too-many-architects-the-ratio->

- of-architects-to-inhabitants-around-the-world/Accessed 4.11.2014) cites the ratios for Brazil at 1:2 500, Chile at 1:667, Mexico at 1:724, Turkey at 1:1 840 and China at 1:40 000.
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