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THE EMERGENCE AND SURVIVAL OF PRIVATE ARCHITECTURE SERVICE FIRMS IN CHINA

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ABSTRACT

This research explores the transformation of business models of private firms over the 15-year transition period of China's joining the World Trade Organisation (WTO) since 2001, during which the market institution in China went through significant restructuring. This study aims to examine how private architecture firms emerged from and survived this rapidly changing institutional context. A firm level, longitudinal, comparative case study approach was employed with major field studies undertaken in 2003 and 2016 respectively. Two private firms in Beijing and Shanghai were selected as typical cases: one was bourn of an SOE for providing strong professional-led services, another figured out a survival strategy of affiliating to an SOE. Their changing client base, interrelations with the State Owned Enterprises (SOE) and the role of professional association of private architecture firms were comparatively analysed and discussed.

KEYWORDS

market, architecture practice, private firms, State Owned Enterprise, professionalisation

INTRODUCTION

A milestone in the global architectural service market is China's joining WTO in 2001 to welcome foreign practice in China. A fifteen-year period was set for China's transition to have the open-market institutional arrangement in place (WTO 2001). A recent EU Parliament Research on WTO rules compliance (Grieger 2016) concludes that "China as a rule has faithfully followed WTO's rulings in a timely way, in contrast to at times considerably delayed or even refused compliance by other major WTO members, such as the EU and the USA" (p.7), and that architectural service market is the most open sector among all service sectors. With this background, this paper examines the professionalization of architecture practice in China starting from the 1980s and evolving over time, with a specific focus on the changing practice in the post-WTO transition period, during which the market institution in China went through significant restructuring.

From the 1950s to 1970s, architectural practice under the Chinese communism regime was entirely managed by the state bureaucracy. Architects worked in design institutes as an integral part of the central or local governments (Xue 1999). In the late 1970s, China started

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to shift from a centrally planned, state-commanded system to a market economy and embarked on re-professionalising the practice of architecture in the 1980s. The Specific Schedule of Commitment made by China regarding architectural service is that scheme design stage is not limited to foreign architects, while beyond scheme design, co-operation with a Chinese professional firm is required. Barriers remain to foreign architecture firms in the form of licensing systems in design and construction markets (Grieger 2016: 5). In this we can see the market share of foreign architectural firms is at the early stages of the design process, namely in concept, schematic and design development stages. The remainder of the design service is handed over to local design firms.

In practice, the design institutes were redefined from bureaucracies to businesses through a process where, in the first step, government kept its hands off the institutes, leaving them responsible for their own cost, profit and development. In shifting from government departments to state owned enterprises (SOE), the institutes struggled to restructure their administrative systems into for-profit enterprises to survive a rapidly evolving market. This proved to be an organisational learning process, during which the institutes acquired market and business skills through trial and error in practice and through collaborations with foreign firms. This process in the design institutes paralleled the structural changes in the governments.

METHODS

A comparative case study approach was employed to analyse the change of architectural practices and their market institutional environment in China. Six in-depth interviews were conducted in 2003 and 2015 respectively with senior management of design firms; these were triangulated with data of firm archives and other documents, making twelve cases in a longitudinal study. The interview was guided by the instruments used by Symes et al (1995). Here we report two typical cases, one from Beijing and another from Shanghai, to illustrate the broader changes practices experienced in China's professionalization of architectural services.

RESULTS

Case A: a small firm bourn of SOE

Case A is a private firm with 30-40 professionals affiliated to a large state owned design institute. Before marketization, the parent institute served an advisory role in the Beijing government, having a tradition of researching for new design or housing policies. Due to its change to an SOE and the need to generate profits, there was a reduction of investment for research. The state set a target for the profit of the year, the institute will need to find projects to meet the assigned profit target and focused expenditure for these activities alone. The private firm was established in 1985 by the SOE as an experiment of a new business model, in this instance, a joint venture with a Philippine design firm. "The Institute is our boss." [B-A1.5, 2003 interview]

Prior to this joint venture (JV), the Institute had experience in running two other JVs with international partners, from Japan and Hong Kong respectively. It's worth mentioning a social mentality over the 1950s to 1990s, when China went through a long period of isolation and initially opened up to the world, which assumed developed countries had more advanced technology and knowledge and therefore legitimated with more authority in making design decisions. Therefore in the case of the JVs with partners from Hong Kong or Japan, design decisions were dominated by the foreign counterparts. Such a decision-making pattern was further legitimated by the larger financial contribution from the foreign counterparts.

However, the Chinese professionals soon learned that the 'experts' from developed countries did not necessarily make the right decisions that worked for local situation. The misfit of design decisions was particularly problematic in the collaboration of housing projects over which architects based their ideas and responses on assumptions of acceptable and appropriate living conditions.

With more contextual awareness, the selection of this Pilipino partner was guided by a preference of compatible cultural background and a collaborative decision making arrangement in technical matters. The fact that Philippine was recognised as a 'developing' country ensured that psychologically, the Chinese professionals could assume an equal status of technical authority to the counterpart. In addition, the narrowed gap of living condition between two developing countries ensured more agreeable perspectives between the professionals of the two countries. To minimise conflicts between a profit-focus and the nature of an architectural design service firm, this JV was set up specifically on an idea of a professionally led business, to replace the previous sole-profit-driven practice model. The allocation of decision powers on the two sides of this China-Philippine joint venture was weighted by technical factors, not financial contributions as in the previous joint ventures. Here both sides assigned their professionals to work on a project. If the project was in China, the China side took a leading role and vice versa.

In the initial transition to a market model when there was no professional labour market in China, an adaptive strategy was necessary in which the parent institute carried over the entire labour force. Having the parent firm acted in the role of a welfare society where basic security is provided to retain a group of professional staff, the branch firm was able to select the professionals from this pool according to the need of the specific project. Unlike the parent firm where project decisions were made by administrators based on primary concerns of business value, in the branch firm, strategic decisions on the design projects were made by the chief architect based on professional significance and innovative potential of the project. An advantage of such a structure is that the chief architect personally knew the professional staff in the parent firm and the personal knowledge enabled her to select the right people for the specific project team.

The Managing Director of the firm is responsible to have a mixture of profit-making projects and research-led projects. To maintain the ranking of a Level A firm, the team needs to ensure at least one national level Award (innovative, high quality and

improvement) in every three years. For example, the firm completed a project of the first ecological neighborhood in China that won numerous Design Awards. The client, who used to be an undistinguished developer in the Beijing Municipality, became well known through this project and soon grew into a large real estate corporate. The success was attributed to both the determination of the architects and their network with some key officials in relevant area. The strong idea-led firm has gained a reputation for its strong research-led designs, which excelled their capacity of attracting talents and projects. Professionals from institutes other than its parent institute came to join the team to learn ideas and information. The small firm was regarded as influential nationwide, so that the firm could select from projects brought to their attention rather than having to look for projects. Clients seeking design services are those who were attracted by their Awards and ideas. “Therefore when they wanted good design they came to us.” [B-A11.3]

The strong professional logic resulted in a consultative leadership style in which senior architects discuss through design issues with their young colleagues, resulting high team morale. “The young people can argue with us. We can have different opinions on the problems and solutions. But all the arguments are for a common goal, which is to do a good design! Young architects come here not for money.” [B-A12.6] As a result, during the time of SARS in 2003 when indoor environment was considered to be too dangerous to work in, the team continued their work in open air in the street.

The chief architect joined the branch firm in favor of the small size of the firm, which allowed flexibility and efficiency of strategic professional decisions as compared to the large firm which has to set up a bureaucratic structure to standardize activities [B-A9.11]. In the chief architect’s opinion, a significant constraint in a large SOE or institute was the number of decision makers who were administrators up on the hierarchy and distant from the architectural research work. When achieving consensus among the many decision makers, creativity was often removed from the design options [B-A7.1]. In the small firm, however, strategic decisions are made by the professionals who are engaged with the iterative process of design and update their perspectives with the research findings. “When we see a new strategic design direction, in the institute we need to report up to one, two or three levels. I did the research I know it can be done. But they were not involved in the research and they didn’t know, so they may not approve the idea. But here we see an idea should be done and can be done. We just do it. And we get it done.” [B-A5.7-8]

The parent institute has a full workload and the expected profit. Staff had good earnings working there. But the small firm has the advantage of allowing staff to pursue professional values. Architects with such aspirations and with commensurate talent come to the small firm to work for a while. “We have some projects with much research work, that means more workload and less money. They may earn even less than they were in the institute. But they are passionate about it; they can come to do one project and go back. [B-A5.5]”

The professional-led, SOE affiliated model has successfully navigated the political and market changes in China over the past decade. After careful assessment, the small firm

developed a partnership with a top structural engineering consultant in the United States to continue enhance its design excellence in Beijing.

Case B: a small firm adopted by an SOE

Case B was a small design firm initially set up by a young architect in 2002. The small firm was operated on an individual basis until 2010 when the founding architect joined a large private design firm where he learned business and management skills. In 2012 he led his core team of 5 away from the large private firm to reestablish his small business to book contracts for ¥ 25 million in the same year. Encouraged by the achievement, the architect continuously expanded the firm in the next two years, only to face a cash flow crisis in 2015. This was due to the procrastination by clients in paying invoices as their development businesses suffered as a consequence of political change.

To keep the business going, the architect affiliated his firm in 2016 to become a Division of a listed state-owned design corporate, which used to be a design institute under Shanghai government and is now an SOE. He justified his strategy by the macro market environment: “First, private firms overall are in a very difficult situation to survive the market, because the market is managed by a higher structure. Resources have been monopolized by the state, leaving very little available to private firms. Secondly, private developers are withdrawing. Often, their projects were swallowed by the state-owned enterprises before completion” [S-A2.2-3]. When private developers are swallowed by the change of political environment, architecture firms can hardly survive their clients. “Most of our former clients were private developers. They all shut down now. [A3.28] This is because of the policy change with the government. None of the developers, except those developing residential buildings, are making any profit. Their projects are abandoned, because the policy has changed. They were excellent entrepreneurs but couldn’t survive the policy change. We can’t tie ourselves to them, or we’ll die ahead of them. Why? Because they would ask us to keep doing the design work such that we invested all our time without getting any payment.”

Unlike his previous experience in 2010 of joining the large private design firm as an employee, the affiliation model kept the small firm intact with the two organisations work in a complementary partnership. The small firm contributes strong professional expertise and ideas while the SOE provides support in administrative facilities and staff, corporate qualifications and reputation, a full range of related services, a social network and the sourcing of projects. Design drawings are now signed by the corporate entity. The division firm has one secretary and one experienced interior designer, the remainder being architects. The affiliation model gave the small firm financial security, administrative support, steady access to projects and the potential to offer full scope of planning-design-build services. The division works on its own staff and projects, pays a percentage of administration fee to the parent firm. The specific collaboration workflow is negotiated on a case-by-case base. This proved to be a business model that works. The principal now takes pride in a shared identity with the SOE: “Our Environment Design Division is very strong; they designed all the major projects of Shanghai Bund.” [S-A32]

Through experiences of failure in the market, the architect learned a strategy to find projects that suit his team: “Finally we shifted our thinking to aim for business success. And the key is, we must follow the government policy, work in the range of our financial capacity, integrate resources, and focus on the kind of projects that take our core expertise” [S-A3.29-31].

In the observation of the principal, the sources of projects need to be traced to the origin of project financing. And this is related to the allocation of wealth in the society, which is more closely associated with national strategy, manifested in policies, with major capital coming from the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Having understood this, the design corporate has developed several specialized design groups in accordance with state policies, including Buddhist temple design group, hospital design group, aged care design group, etc. The specialization of these groups help enable the architects to look more closely into the need of special user groups, as well as the special groups of clients.

Meanwhile, design projects are increasingly being awarded to SOE design corporates. Large corporates with their governmental backgrounds have the capacity of providing comprehensive services, including design approval. Small firms affiliated to large corporates also benefit from their qualifications, reputation and the powerful network to get projects:

“A main source of our projects is from the corporate that has the project information. We as a division would approach it proactively, providing a number of concept design options. In many occasions it takes more than one year’s concept design to secure a project commission. For example, we started to do concept design for the Yiwu urban design project from last year. They have just come to discuss contract with us yesterday. It takes a long time. This is the main source of our projects.” [A34.1]

A second source of projects is a hybrid network where the Division, having done a corporate designated project well, builds a reputation with the client, who would return to commission further projects to the Division. “For example, the governor of the county found our design for their Ethnic Flavors of the World project good; and it was thus followed by many other new project commissions from them.” [A34.2]

A third source of projects comes from the internal job sharing within the corporate: “We will give the landscape design of our project to our Landscape Division, because we have an obligation to give some jobs to sister branches within the corporate. We can do the landscape design, but better keep other divisions in mind and share the job with them.” [S-A58]

While the old client base developed by the small firm on the principal’s personal network has a very small share of the current project source. This is due to two reasons. First, most of the private developers had closed down due to the policy change. “Very few of our old clients survived the policy change and are still able to develop new projects”. Second, the principal, as an architect, is not interested in marketing. The projects are secured on the

basis of the reputation of the previous projects or personal referrals. “Since 2013 I have stopped marketing. Marketing is a very tiring job. I don’t do marketing.” [A34.3] “Two out of three clients we did the first project with will come back to offer us a second or third project. Why do we need to do marketing?” [A114] This indicates another characteristic of the China market: the opportunities are not won by publicity or advertisement, but more by personal references and professional reputations from work.

In the absence of professional associations’ active engagement, large design firms are taking up part of professional associations’ role. CPD events are organised within the corporate firm, including lectures by foreign architects, introduction to new technologies and equipment, etc. Furthermore, the corporate has weekly meetings and engages in professional discussions through internal WeChat groups. The corporate also provides a staff development program for mentoring of young architects; this is comparable to the Intern Development Program in the United States (Hong 2013).

The partially established profession leaves architects subject to the unmediated supply-and-demand mechanisms of the market. Consequently, architectural firms fell prey to developers’ purchasing power and architects found themselves in harsh working conditions.

“Architects are at disadvantaged in the market. After two years’ work on the project, you come to them for payment, but they refuse to pay: ‘Give me the evidence!’ There is not an institutional environment to support us, to help us to turn our work output into financial reward. This resulted in the high pressure to architects and long working hours, many sudden deaths, poor mental and physical health.” [A108.10-14]

However, the principal observed that contracts with foreign firms are normally respected and paid.

DISCUSSION

In spite of the significant progress made in institutional restructuring and market establishment, China’s remains a top-down managed system in which the state is now the chief capitalist in the market. A further issue is China has not developed a culture in which the value of professional services can be properly recognised. While design products are perceived as of value, the act of designing is not. As a result, variations in design during construction are often not paid, as they are regarded as a warrantee for the built product. In other cases, when the architect has done a complete design project for the client but the building plan was canceled by the client, the client disregarded the contract and did not think they should pay for the design service. While architects found they are not under legal protection. Over the past decade, the major source of clients in the China market has changed from private developers to SOEs. National strategy is the primary determinant of resource allocation and types of projects. Administrative power often overwhelms the market in determining project success. This is clear in the principal’s decision of affiliating his firm to an SOE.

Whilst from an ideological perspective one might expect the establishment of a free market system make a 'revolutionary' change from the communism regime in China, the fact is that the practice of a centrally managed regime, be it market or hierarchy, is more of a continuation of four thousand years' Chinese culture than an imposed totalitarian system in the modern time. The communist regime did emphasize heavily a command-and-control culture through micromanagement for over thirty years before opening markets. Nonetheless this approach to management was largely legitimated, and to some extent expected, by the Confucian culture widely followed in China. The practices of the People's Republic of China before its marketization process and professionalization of architecture can be understood as the continuation of a strong historical culture. From an institutional logics perspective, culture falls into the category of 'slow moving institutions' that are slow to change in contrast to the fast-moving institutions such as policies and laws which can be changed overnight (Roland 2004). Without the underpinnings of slow-moving institutions, an artificially imposed system will not determine the characteristic of the society and the environment for businesses and professions. The system would be overwritten or reinterpreted in practice to produce a different outcome from the intention.

A major consequence of the lack of a strong profession is that the architecture firms find it difficult to capture value for their service. This is a cultural consequence of society not respecting, hence undervaluing, the professional service. Similar difficulties in collecting payment has been reported in a study of Taiwanese architects practicing in Shanghai (Lee 2013). Leaving aside the market barriers in certain areas, international design firms share some prestige with SOEs in the schematic design service and are at an advantage by attracting the best professionals (Chen 2009) and realizing a fair payment.

In the cases presented here, changes in the business models were closely related to the development of international practice and mastery of market by SOEs. Figure 2 gives a summary of the narrative. Case A was initially set up by an SOE as an experiment of a professionally led, internationally partnered business model. By keeping a strong professional logic while closely affiliated to the parent firm for human and financial resources and reputational status, the small firm develops into a nationally leading role in design ideas and expanded its international partnership based on technical expertise. Case B is a typical young architect setting up his practice at a time when accreditation systems were in place and the market was friendly to small private businesses. However, as may be encouraged in professional education, the intrinsic career goal of the young architect was to achieve professional (rather than business) recognition. Business skills are typically absent from architectural education. The young architect joined a large private firm, where he acquired business skills to reestablish his firm but his new practice was not robust enough to survive the political and financial risks in the market. Following a cash flow crisis, he determined that the way forward is to affiliate to an SOE and watch the policies as reference of design strategies.

CONCLUSION

This research is a longitudinal study of the professionalization of architectural practice in China. This paper compares two architectural practice cases in the period from 2000 to 2016, tracing the transition period of China's joining WTO. Both of the small practices went through changes and settled themselves on a business model of affiliating to a state owned design institute to survive political and market fluctuations. The change in the two practices reflects the transition of the market and institutional systems in China. The outcome shows professionalization is incomplete and overwhelmed by the strong market mechanisms. Meanwhile state owned design institutes are enjoying significant competitive advantages over private architectural firms. While the cultural foundations for respecting contracts continues to develop, private architectural firms found themselves lacking legal protection when claiming payment on their services. Unlike their Chinese counterparts, international practices in China appear to garner fair respect for their contracts when providing schematic design services.

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