



## **VALUE BASED COMPENSATION**

For years architects have been looking for ways to justify their fees and hourly rates to their clients. It may just be that this "justification" posture is the obstacle to achieving their goal of higher fees.

Instead, more energy could be expended in improving our communication skills, especially our listening skills. We need to take the time to understand our clients' needs and concerns and then educate them about the value-added aspects of our service. Please note that I said service, not services.

David Maister, a Management Consultant, has written extensively on the subject of the value-added aspect of service and the distinction between it and services. If we understand this distinction, then perhaps we can begin to develop our ability to negotiate for **Value-Based Compensation**.

The initial step to understanding the difference between service and services is to learn that our clients' satisfaction is based on their perception and expectations in the service they receive from us and not in the services we perform for them. In his article "Quality Work Doesn't Mean Quality Service", David offers the following formula:

$$\text{SATISFACTION} = \text{PERCEPTION} - \text{EXPECTATION}$$

In other words, SATISFACTION will be experienced by the client when their PERCEPTION of the value of the service we render exceeds their EXPECTATION.

The distinction between service and services can be described by the following:

$$\begin{array}{l} \text{SERVICES} = \text{TIME SENSITIVE/COST-BASED TASKS} = \text{TIME/}\$ \\ \text{(Technical activities \& (Time-card hours) (Cost Based Compensation)} \\ \text{is expected.)} \end{array}$$

Typically, clients have a low-level of PERCEPTION and appreciation for the complexity and value of the services we provide. Their EXPECTATION is for their professional consultants to be technically competent.

$$\begin{array}{l} \text{SERVICE} = \text{NON-TIME SENSITIVE ACTIVITIES} = \text{VALUE (\$)} \\ \text{(Non-Technical (Listening, Being Responsive, (Value-Based Compensation)} \\ \text{\& is not expected) Communicating, Concerned)} \end{array}$$

On the other hand, clients have a high-level of PERCEPTION and appreciation for these non-technical activities that add value to them and their projects.

Clients do not EXPECT, but PERCEIVE great value, and hence SATISFACTION, from these non-technical activities, when they are provided.

Most of our clients are better able to perceive and appreciate the value of the "soft" items that might be provided in the project delivery process, more than the complexity of the services we include in our proposals and contracts. These "soft" items are called service.



Understanding this distinction then allows us to include the value we bring to a project in the determination and negotiation of the final fee. Paul Segal, FAIA says, "appropriate compensation comes from the negotiation of an arrangement, not a fee. This includes educating our clients on the interdependence of time, quality and cost." Examples of this would be arrangements for additional compensation if: 1) the bid documents are completed in advance of the scheduled deadline. This early delivery contributes to the possibility of the project being available for occupancy sooner than anticipated and an earlier start of cash flow for the client. 2) the building leases-up faster than the scheduled pro-forma. 3) the project is completed for less than the budgeted cost due to your innovative design, time-saving details, and the design team's effectiveness in their interaction with the construction team. 4) a shorter time between design and occupancy could save our clients thousands of dollars in interest on the construction loan. These are just a few of the possibilities of the types of service that can be provided that make a difference with our clients and ways to attain **Value-Based Compensation** for our future projects.

Once again referencing David Maister's article; he says "clients don't care how much you know, until they know how much you care". Think about that the next time you're with your clients. Show them that you do care by asking questions about their goals, needs, and concerns relative to their project. Learn to listen more than talk. Do you think it's an indication that we should listen twice as much as we talk because we have two ears and only one mouth? Just a thought to ponder.

Communication involves more than speaking. In fact, Bert Decker, in his book "The Art of Communication" says that studies have shown that the most important forms of communication do not involve speaking. Body language and tone of voice are more important in the process of communicating an idea, or message, than the actual words spoken. Only 7% of what is being said is attributed to how the message is received and believed. One of the most powerful forms of communicating involves effective listening.

Effective listening is a way to indicate to the person speaking that we have not only heard their words, but are indeed able to indicate to them that we also are in touch with what they are feeling, needing, and expressing, regardless of whether we agree with them or not. We can learn to be empathic without agreeing. Feed back to them, by paraphrasing, what we heard them say. If we are accurate, they will confirm and they will know that we have cared enough to really "hear" what they were saying. If we are not feeding back accurately, they will let us know. This process is not as easy as it sounds. It will require a true commitment to master this process. Once mastered the results/rewards will certainly be gratifying.

Our clients hire us with the expectation that we, above all of our competitors, have the skills and ability to understand and translate their needs and concerns into appropriate, cost-effective, quality solutions. To be successful in this process, and thereby impact our ability to shift from cost-based compensation to **Value Based Compensation**, will require focusing on the integration of our ability to serve our clients while delivering our design services. Remember, **Value Based Compensation** is a "win-win" environment for us and our clients.