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## EXERCISING LEADERSHIP

### The Firm of the Future: Big Picture Trends

By Ray Kogan, AIA

It is essential today that leaders of architecture and engineering firms understand what the future holds to navigate their firms through tumultuous times. John Naisbit, author of the classic book *Megatrends*, wrote 25 years ago, "Trends, like horses, are easier to ride in the direction they are already going." Nothing is more important to the leadership and management of architecture and engineering firms in the tumultuous economy of right now than scanning the horizon and taking in the future picture. By examining the major forces that will drive the business climate, firms will become better equipped to anticipate trends, analyze future prospects, and position their firms to take advantage of upcoming changing market directions.

"The challenge is not about short-term survival in today's economy. It is about thinking and planning for the long-term success of your firm," said Raymond F. Kogan, AIA, in a presentation at the American Institute of Architects national convention in San Francisco. Kogan quoted former catcher and baseball manager Yogi Berra, who supposedly opined, "It's tough to make predictions, especially about the future." Kogan pointed out that we don't need predictions—we need projections and imagination. He outlined the 10 trends that he states will affect the AEC industry.

1. **Demographics.** Demographics can be accurately anticipated and are the foundation for many other forecasts. To some extent, demographics drive everything. According to the United Nations World Health Organization, a rate of 2.1 births per couple will be needed to maintain a steady population, yet many countries—such as Europe (1.7), Canada (1.5), Japan (1.3), and China (1.1)—have shrinking populations. The United States (2.0) is behind India (2.8). In the United States, 85 percent of population growth will be in the South and West. The fastest growing age group by far is the over-85-year-olds. There are also ethnic demographic trends, which show that the fastest-growing populations will be former minority groups, with more of them living in urban areas.

2. **The markets.** The question is, "What will more people living in different places continue to need?" Kogan asked. "We need a demand for our services and the money to pay for what we do. The housing market in the United States will come back, but the demand will be driven by population change, growth, and preferable lifestyles. We need to revitalize and redevelop some areas and repurpose and retrofit others," Kogan said.

3. **Technology.** The biggest new technology, building information modeling (BIM), will initially be driven by sophisticated owners and contractors, who have the most to gain and will be influenced by larger trends in project delivery. "BIM will facilitate—even force—collaboration among historically noncollaborative project team members and foster the integration of design, fabrication, and construction," Kogan said. "BIM will require more up-front intelligence and effort earlier in the design process. It may also widen the gulf between technically proficient young architects and older managers who may not possess those skills," he added. BIM will pose both legal challenges and present opportunities for firms to reconsider their scope of services, intellectual property, design liability, risk

management, and compensation.

According to a survey by the American Institute of Architects,

- 35 percent believe BIM will be an industry standard in three years;
- 51 percent believe BIM will be an industry standard in more than three years;
- 86 percent believe BIM will ultimately be an industry standard. Resistance is futile, the survey added.

Contractor-led design-build usage of BIM leads to an expanded role for general contractors, and owners are paying extra for contractors to use BIM, since owners are convinced that doing so will save them time and money. As a result, design firms may become commoditized and further marginalized. The blurring of design and construction also raises more liability concerns. When BIM is used in design-build, it reduces errors and omissions claims, due to the contractor's input into the model. It's a more collaborative process. When BIM is used in design-bid-build, it may increase error and omission claims, because it's more of an adversarial and less of a collaborative process.

4. Your projects. Integrated project delivery is an approach that integrates people, systems, business structures, and practices into a collaborative process that harnesses the talents and insights of all participants. It optimizes project results, increases value to the owner, reduces waste, and maximizes efficiency through all phases of design, fabrication, and construction. It is based on the sharing of risks and rewards and driven by all parties in the design and construction process.

Public project funding challenges will create momentum for P3 (public-private partnership) projects, many of which are financed by non-U.S. developer companies and are related most often to infrastructure projects. The package usually includes integral financing and lease-back arrangements. This format will extend the range of nondesign services, blurring traditional roles and responsibilities. "Firms will offer a broader range of project delivery services to include front-end program management, financial consulting, project feasibility, and back-end operation and maintenance consulting," Kogan said.

Project management will remain pivotal as new client demands, fees, profit, schedule, and risk management will require broader and different skills, such as knowledge of business and finance, communications, and psychology. "Project managers (PMs) may not be architects or engineers at all; they may be business-minded people, who will manage their projects like minifirms, positioning themselves to be the future firm leaders. However, the increased value and compensation for highly qualified PMs could price them out of reach for public-sector clients," Kogan warned.

5. Your people. Architecture firms will face a skills shortage as the population trends see smaller employment pools, since 33 percent of the A/E/C workforce is older than 50. In the next 15 years, the 55-to-64-year-olds will increase by 47 percent, while the 33-to-54-year-old age group will decrease by 6 percent. "There will be ongoing recruiting, retention, and reward challenges ahead as some talent will migrate to more profitable firms and away from 'pure' architecture or engineering firms," Kogan pointed out.

There are vast differences in work and lifestyle among generations, according to a Future Leaders survey. They don't expect to work with one firm—or even necessarily practice architecture or engineering—forever. They value independence more than competition to get ahead and are willing to work hard, but also want a life outside of work. They want early hands-on experience with interesting projects and expect frequent constructive feedback.

"Millennials want constant communication through technology, which means they're always in touch and able to work. They blur the line between work and life outside of work, so how will you manage a virtual 24-hour 'plug and play' office? How will you measure performance with traditional metrics like utilization, and how can your firm use this to achieve a competitive advantage?" Kogan asked.

According to an AIA firm survey, women and minorities make up 26 percent and 16 percent respectively of our profession, but only 16 percent and 9 percent are firm principals. Neither group is represented proportionately in top management. The Future Leaders study surveyed over 1,000 interns and found that men are more likely than women to see career advancement opportunities at their firms. Half of the women surveyed believe that gender affects their opportunities for advancement. Men cared more about money, a paycheck, a 401(k) plan, and an opportunity for ownership. Women care more about the quality of life, co-workers, supervisors, commuting, paid time off, office environment, and a flexible schedule. What can firms do to overcome these differences?

- Develop a training and development program that mentors employees' career development;
- Be flexible with work arrangements; and
- Actively listen and maximize the use of performance reviews.

Training and development is to this decade what developing marketing skills was a decade ago," Kogan said.

6. Your leaders. "If a firm is short on money, it can borrow; if it's short on work, it can market, but being short on leadership is not something that can be fixed easily. It's risky to bring in someone from outside, as future leaders have to match the culture and quality of the firm," Kogan warned. "Do you know how the key individuals fit into the future of your firm? Do they know? Have you identified the leadership roles that will be vacated in the next five to 15 years, and are there enough people in your talent pool to meet or exceed those needs? What—exactly—are you doing now to develop your firm's future leadership talent?" Kogan asked.

"Leadership succession will be the most important factor that firms will have to wrestle with in the future, and that changes from generation to generation," Kogan added. "It has become a growing trend as more 'boomer' principals approach retirement, most with a strong entrepreneurial, personality-driven practice. Larger firms have structure and business systems that are more developed, and the first major ownership transition has usually been completed and ongoing strategic plans are in place. However, infighting or fragmentation may develop among the next generation, with a tendency toward management by committee," Kogan said.

"Firms should establish a budget, structure, curriculum, time schedule, and list of participants for leadership training," Kogan advised. Perhaps combine in-house training with outside learning; just don't rely only on "on-the-job" training.

"Firms will bolster their leadership by hiring more nontechnical business people from outside the A/E industry from marketing, human resources, finance, and IT in response to the shortage of specialized talent. There will have to be recognition of our industry's 'inbred inertia.' Look to experience from other industries with a longer history of demanding return on investment from its leaders," Kogan said.

7. The industry. "The retirements of boomer principals will drive the consolidation of firms, and the separation of leadership from ownership will be a major obstacle. Even worse, when the current owners are boomer-founders who haven't planned ahead for leadership or ownership transition, numerous firms will likely be sold. The biggest firms will get bigger, overseas firms will increase their foothold, and private equity investments will gain ground," Kogan pointed out.

8. The environment. "There will be increasing pressure to incorporate sustainable design into all projects and adopt sustainable business practices, now called corporate social responsibility (CSR)," Kogan said. "This will come from employees, clients who care deeply about it, investors, end users, the government, and from within our own industry," he added. According to a survey by Hill and Knowlton, 40 percent of MBA graduates rated CSR as an "extremely" or "very" important measure of a company's reputation when job hunting. A survey by Globescan indicated that 83 percent of employees in G7 countries say a company's positive CSR reputation increases their loyalty and motivation.

9. The world. Globalization will be both an opportunity and a threat, but it cannot be ignored. The opportunity is there for U.S. firms to outsource labor to locations where low cost intersects with acceptable levels of quality and service. "One in five firms have outsourced work overseas, mostly to accommodate workload fluctuations, but will outsourcing be a threat to U.S. architects' compensation and job security?" Kogan asked.

Globalization will be an opportunity for U.S. professionals to provide the highest value-added services and shed commoditized services, such as production drawings. It will be a threat if and when overseas firms provide U.S. licensed architects and engineers and the balance of responsibility shifts from U.S. firms to the overseas firms.

An increasing number of U.S. firms will work with overseas clients or on overseas projects. American firms will acquire overseas firms to establish beachheads beyond their domestic project offices. However, this depends on the timing of the U.S. economic recovery versus that of other countries.

10. Your future. Successful architecture and engineering firms will plan for the future, and for their futures. What will you and your firm do differently starting tomorrow? Successful architecture firms will plan for their future. What will you and your firm do differently starting tomorrow? Envision a range of alternative futures and plan for them. It's not as important to predict the future as to prepare for what may come. In scenario planning, consider:

- What strategic decisions will your firm face?
- What major trends and drivers do you see as probabilities in your firm's future?
- What will trigger those trends?
- What effect will those trends and drivers have on your firm?

Now arrange the trends and drivers on a matrix with two axes, with the significance of these trends to your firm ranked "highly significant" at the top to "not sure" on the bottom. On the other axis put the likelihood of it occurring to "not likely at all."

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