



## *Leadership and Innovation in Design*

# james p. cramer

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Good morning, everyone. Thank you for the nice introduction. I'm very happy to be with you this morning, and to be back here. It's my third time at the Design Exchange which has I think, inspired a lot of us in North America. I mean the kinds of activities that take place here and the insight that comes from here and recognition to design as a new value driver in our economy and in North America today. So I'm happy to be back.

Let me ask you a few questions as we get started. How many of you are feeling optimistic about the future? That's a pretty good show of hands, well over half. How many of you either own your own firm or have an ownership position in your firm? So we have a good number of true owners of firms here. How many of you are in a firm that has been growing during the last twelve months? Well, there you go. We should get that in the headlines of the newspaper tomorrow morning. That is in stark contrast to what I've been reading in the Globe and Mail. How many of you have read the business pages in that paper or other papers like the Financial Times, have truly read an article within the last week? Okay, not quite so many. One of the things I'm going to focus on today is how we are going to integrate the language of design and the language of business and how important that is going to be in your future in the design professions. Remember that neat little book that was so well designed last night on compensation that was passed out last night, the red book? Well, I'd like to suggest that we use that as a benchmark, look at those compensation numbers and start making some radical leaps forward. I came from Vancouver, and then Saskatoon, and then Regina and I'm telling you, the numbers in the book are way below for where they should be but even they are slightly higher than I think they are in some other areas in Canada. Who's going to do something about that? You are going to do something about that. And that's what I'd like to talk with you about today.

I think it was just mentioned that I'm chairman of the Design Futures Council in Washington D.C. The Design Futures Council is a think tank on the future of the design profession and one of our senior fellows is Paul Goldberger and he is with the New Yorkers of the cartoons from The New Yorker magazine. This is a cartoon from The New Yorker and it just says, "Sir, the following paradigm shifts occurred while you are out." That's the life we live today: rapid change, lots of things happening. So there is even more opportunity ahead, but there are also a lot of us living in the past. So today we are going to want to talk about how we can live

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in the present more robustly, more satisfyingly, with, more health, more wealth, because a little more energy, and a little more enthusiasm. Because, just life is getting complicated doesn't mean the best isn't yet to come. And some of these ideas will come from the How Firms Succeed and even though most of the examples deal with professions of architecture and interior design, we also have researched and worked with some of the strongest firms in interior design, graphic design, environmental graphic design, communications and marketing, e-business, and new media and many of the world's magazines.

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*“Graphic design as a profession is changing, and environmental graphic design, and new media, web design, branding, communications.”*

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I just had breakfast, looked at the paper, all the jobs being lost to India, and China. How many of you actually feel the loss of those jobs to India and China? There is a feeling about it. Four of our clients, design firms, actually have interesting outsource agreements with design firms in India, and one in China. Our firm is currently marketing a ten percent firm in Beijing and they said, “We want to align ourselves with a North American player, and a hundred-thousand-dollar design position in the United States is currently paying a bit under thirty thousand dollars in Beijing. Imagine the hierarchy of design positions and you can quickly see why some North American firms are outsourcing some of the production work, especially design production work, to parts of South East Asia and China. Some of these trends and numbers we look at come from our monthly Design Intelligence, and I know some of you get it. Design Intelligence does track thirty five trends that are most seriously impacting the design professions and case studies of what successful firms are doing. Essentially what we do is study success. Graphic design as a profession is changing, and environmental graphic design, and new media, web design, branding, communications. But right where you are, there is some terrific change. There has been some downturn in the economy but let me say this. Just because there is downturn in the economy, doesn't mean that your firm can't be more relevant than ever before. I'm suggesting that the economy is not an excuse for your own success in the future. Yes, there are lots of wild cards to anticipate. Firms fail though in up and down economies. In North America we project that about six percent of firms fail a year. Many learn from those failures but those are lots of spoiled dreams. We don't want that to happen to anyone in this audience today. Life gets complicated sometimes but we believe we can make sense of it all, we can de-complicate it somewhat, and we can embrace even celebrate some of the challenges we have ahead of us.

When we talk about design practices, this is essentially what I mean. When I boil it down to design, best practices in design, here is what it is for graphic design. I'm talking about health, your own satisfaction in the design professions. I'm also talking about wealth, your compensation, the reward you get back for these exceptional talents you have. Having been the CEO of the

American Institute of Architects in Washington for six years, I have a point of view. I was publisher of Architecture Magazine for eight years before that. I am also a chairman of a management consultancy. Our offices are in the United States but we work a bit in Canada. Very briefly, these are the best practices in design. By best practice, I mean practiced by designers like you in the top twenty percent in your category, the most talented. You have profitable niches, niches on which you are making fifteen percent or more profit. Your clients are selected with great care. Yesterday, someone said, “We had to fire a client,” a half-a-million-dollar client. It was very painful but it was the right thing to do for ethical reasons and to get us into alignments that enables us to have more self-respect. Best of class firms have strong communication skills horizontally and vertically.

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The staffs are good communicators, and bosses/leaders are good communicators and it’s because the firm knows how to communicate outside the firm as well. You nurture an innovative culture; you know how to deliver innovation so it has value. You’re not just a creative think tank generating ideas that go nowhere, for you innovation adds value to the bottom line of your firm and your clients’ firms. Profit goals are achieved and by the way, in our experience most firms in North America have a profit goal of fifteen percent. But I spoke this morning with one of you here, and the profit goal in that firm is twenty percent. We are going to talk more specifically about how you can get those profit numbers even higher. When I say the growth goals are achieved, I’m really talking about growth in the value you have to your audiences. Usually you can benchmark this as metric, according to the dollars that are flowing into the firm. But you can measure in 101 different ways. You may be growing the quality of your projects during a flat time when the firm is not actually growing in revenue. Or you may need to tighten the belt a little bit and go with a leaner staff but grow in other areas of satisfaction in your firm. You don’t want a staff turnover rate of fifteen percent a year, or you have an intellectual brain drain. You’re losing your knowledge management. Believe it or not, some of the firms we’ve been studying have a turnover rate of well over twenty five percent a year. They are just not able to get their act together. There is no efficiency and there is no place to hide from their poor performance. It’s vital to plan for leadership transitions and the key word here is leadership, not ownership. It’s easy to put together an ownership transition agreement and then watch everything go flat. We are going to talk about leadership today. And knowing the risks and protecting yourself against them is the other key area. In Design Intelligence we look at the top thirty-five trends. There are just ten of these that are particularly relevant to you today.

As one dinosaur said to the other, “Don’t worry about me, I’m a survivor.” We have ‘designosaurs’, people in our firms who have retired but are still receiving a paycheck. We have people in our firms that clients talk about behind our backs. They are still paying the bill. They are still paying the invoices you send, but make no mistake, they are looking for a new value proposition. The Almanac of Architecture and Design, which is published every year by our green white group company. It has about eight hundred and twenty pages. In it we look at all of the demographics of the design professions, how many in each profession, how many employees,

the trends, the compensation, the fees, the current metrics, who's winning the awards, how does that compare to the last ten years, and so on. And so some of the metrics that I use here come from the Almanac of Architecture and Design, I'd like you to think back just five years to 1998. The average dollars earned per employee, none of you are average designers here, I know, but let's just talk about the average was eighty thousand dollars is what an individual designer produced in fees. Graphic design is a little bit higher than that but the average is eighty thousand. But in 1998 a handful were over a hundred and forty thousand. Today, most firms say they are over a hundred thousand of revenue per employee but at least twelve to fifteen percent generate over three hundred thousand dollars of revenue per employee. So productivity and efficiency are going up. In 1998, just back five years, profits were around eleven percent. Best-of-class firms were double that at about twenty two percent. Those numbers have been cut in half today, in North America because of the problems with the economy. This is the first trend I'd like to discuss with you.

A new design profession is being created, and I want you to know I'm including all the design professions and especially yours. But what will this new profession become? How will it be positioned, compared to other professions that are in transition? My point is that the design profession as we know it today, not even as we knew it just five years ago but today, will be history. So we need to anticipate; we need to be resilient; we need to get ready for what's next. And there's going to be a lot more in common with management consulting and music, and information technology, which I'll explain in a minute. Technology has actually already annihilated many traditional design practices. It's programing almost like a stealth movement, but make no mistake, it's a tidal wave. And there is going to be a continuum between conceiving forms and implementing these forms. We are going to be talking more about artificial intelligence (AI) in the future. We are going to go way beyond Adobe and Photoshop and their next generation solutions for you. So traditional practices are going to be changed significantly. The opposite is also true but I'll talk about that a bit later. There will be diminished labour requirements. In the architecture profession in North America, including Canada and the United States, there are twenty-two thousand firms. That's two hundred and twenty thousand employees. That number is going to be reduced to just above a hundred and fifty thousand. This is because of better management, new software, and better systems. According to the U.S. labour department, it's also because, in the year 2006, we will have lost thirty-five thousand design jobs in the United States. That includes architecture but it also includes the professions you are in. So new techniques, new efficiency, systems, and offshore outsourcing. Yesterday in the newspaper, they were talking about jobs over in India. The marketplace is going to seek great designs. This is great news for us but it's also going to be seeking at a low cost and at faster speed. And more of us will be commoditized. It's not necessarily a dirty word. You can make respectable profits. You can do great work, it's happening especially in areas of retail design. It's happening especially in areas that include multiple site solutions where they are doing one franchise after another. So sometimes you can get to great design, much lower fees than you need. The professions have been

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streamlined around their individual disciplines but that is also changing. That's why your profession has more in common with interior design, architecture, and even engineering, and when you think about the box that you've got to get outside of, think about that. Being a Registered Graphic Designer is a wonderful thing, but don't let it keep you in the box. That's part of your offence but you need a strong defense. We are going to talk about a strong defense outside the box. Your clients are going to be seeking integrated solutions and they are going to be moving away from monocultures; monocultures in nature are not sustainable. So don't create such a strong monoculture in that box that you lose sight of other societal, sociopolitical issues around the globe. I'm going to come back to this particular example in a minute. Designers will morph into service and management consultants. Here we are talking about new methodologies that you are creating, we are talking about flexibility, we are talking about grounding in systems and know-how and new strategies that will lead you to be consulting visionaries. Actually delivering these values, and this integration of services will be a competency that will be sought out. You will be able to speak the language of business and the language of design, and you will be able to reinvent those languages, even with new vocabulary in ways that will excite your future audiences. Supply chains will become even more optimized in the future—we see it in the way you are working with your printers, in the way you are working on your web delivery sources. In architecture, there is parametric modeling, which incorporates 4D into our systems. All this means there are going to be new rules. You are going to be breaking the rules and products, annual reports, assemblies, and production lines, all are going to change. Only five years ago 2D was dominant in our firms. Now 3D is dominant. 4D, which includes the dimension of time is next, and then the inclusion of artificial intelligence. So there are going to be radical new value propositions in the design profession. It's one reason why I think you have selected one of the best professions on the planet today. These new value propositions will be created and the new technologies will be your enabling tools.

I have worked with Bill McDennis since we founded the committee on the environment at the AIA in 1991. When he was dean of University of Regina and I was on the advisory board, we talked much about sustainability in green design, and how this would increasingly be expected, and all of this has come to be true. Now we are talking about regenerative design that represents a new way of thinking about systems with contractors, architects, engineers, consultants, and designers playing an indispensable role. We think of transportation as the major problem with pollution in our environment but of course it isn't. It's buildings. Buildings are the number one culprit. And so architects and interior designers can do so much in this area. Just as you can do so much in your category. So we are both the problem and the solution. Sustainable green design will be increasingly expected and it will be an area for new business opportunities as well. We often talk about large firms getting larger and small firms getting smaller. I'd just like to say that there is plenty of room for small, medium, and large firms. It is true some clients want a larger firm. They really like to get the best talent, they like to know there's experience with other clients. But boutique firms are also going to thrive in the future. So there is lots of good news there.

Large firms will get larger, but if you are in a niche firm, we don't see any reason why you should to run for cover. In the age of the Internet, you can compete just wonderfully in the future. Regardless of your size, the most important thing is this concept of richness and reach. I would suggest you ask yourself how you are delivering both richness and reach because this is where your expertise will stand out. How rich is the creative service you are providing and how does it compare to your competitors? In terms of reach, many of your clients are going to want to know that you can practice elsewhere, that you can take a good project up to Quebec, or down to Boston or into Las Vegas; that you are a solution provider, that you have the reach and can get the job done elsewhere.

I want to mention the design, build and grow. Currently in North America, about twenty-eight percent of all that are architectural and projects are delivered through design build. According to Design Futures Council projections, based on interviews with clients, this is going to grow about sixty-five percent. Design build is going to grow in your area too. The client will come to you, looking for you, to take a new opportunity from design concept, all the way through printing and fulfillment into the hands of their clients. It's happening in hospitals where interior designers are being asked procure of the furniture as well as design the space. Design build is part of the whole life cycle delivery, we will be talking about. Demonstrated competence here will differentiate you from other firms.

Imagination and optimism are strategic. This one very rarely shows up on our top ten list. It's in the twenties on the top thirty-five but I'm thinking more and more that this is something clients want. They want imagination. They want optimism. They want to hang out with people who have a vision of the future. And I think that's where you are at. In yesterday's Financial Times, there's an article called, "Reasons to be Cheerful in Adversity." If you get a chance, pick up the Financial Times and read it. I try to discipline myself to read it everyday because, coming out of London, it talks so much about issues of design. In a rare interview, the president of Nokia talks about prospects for the company's future. Here's a quick quote, "When I describe where we are now, I like to use a sea analogy. When you come from a narrow gulf into an open sea, you get cross-waves. It's always difficult to sail there. You don't know how the boat will go. Our industry is in one of those cross-waves now. On the one hand, we have an industry whose main application was, and is, voice. There are still growth opportunities in emerging markets but in other markets we are coming to a saturation point. On the other hand, we have a new industry emerging based around data, music, and entertainment". She concludes, "There are reasons to be cheerful about adversity." We work with many clients of designers and many design firms, and I think that beyond your design talent, one of the most important gifts you can bring is this attitude that includes imagination and optimism all rolled up. And when we talk about going outside the box with your services, it's just as important to do a much better job inside the box, to show more respect for the graphic design profession inside the box and to think about all of the opportunities and imaginations you can exercise inside the box. We have not perfected that box yet. There is a lot that we can do.

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*"Imagination and optimism are strategic."*

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This leads me to five principles I would like you to take away for Monday morning in your firms: innovating a better vision; building a stronger brand; leading as both a business and a profession; creating design excellence; and executing all of this with passion. I was in Dallas earlier this week, and the economy is looking brighter there. But when I interviewed two firms, this is what I heard, “Jim, our design business here is going great. We are getting some wonderful younger talent into the firm. They seem to be merging into our culture well, and we believe they’ll be here for a long time. We are also getting some good projects and profit growth has never been as robust. Our new big media business is taking off. It’s a satisfying design profession.”

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*“We cannot be successful with a limited thirty-eight or forty-hour workweek.”*

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Keep that image in mind. Now this is what I heard two blocks away, “Jim, this economy is terrible. We can’t make any money. We’re going to be laying off more staff. Morale is awful and we are the victims of having chosen a very weak profession, a very weak profession called graphic design.” The lesson here is that in both good times and bad, there are firms who actually refuse to be successful. It happens all the time. I suspect that even if they had the complete recipe for the secret sauce of success, chances are pretty good they wouldn’t use it. Why visit the doctor and then ignore his advice? It’s bit of a mystery. There’s probably no one reason but some designers seem to prefer failure to success. We know that change can be psychologically threatening and there’s a whole lot of change taking place in our profession, so maybe that’s part of the answer. It’s hard work: in this profession, we cannot be successful with a limited thirty-eight or forty-hour workweek. Sometimes, too, it isn’t as intellectually satisfying as we thought it would be when we entered the profession. But I think the ultimate explanation is pretty simple: to succeed in this business of design, we have to have a genuine, honest to goodness, passionate belief in improving the condition of our clients. And that’s why we are merging the language of business and the language of design, because you are in the business of improving their business. Now it doesn’t necessarily require the same level of talented passion that your design work does but it does take a commitment, a commitment to improve the condition of the client. And, of course, it takes a state of mind, resiliency, and it really does take attention, I think, to these five principles.

I’d like to discuss these five principles in more detail, and perhaps I can get into a little bit more depth with a few case studies as well. ‘Innovating a better vision’. I was recently on an elevator in Chicago with a head of the real estate division of Emgem. Emgem is a large biotech firm. He is an engineer and I asked him: tell me what you do, what’s a day like for you. And this is what he said: “I’m involved in creating the facilities that Emgem needs to save people’s lives. Our solutions can make a huge difference in whether or not people get the cures they need. And because our vision is so compelling, our facilities here must not only be the best, but they must respond very fast to the opportunity to save lives.” Later that day, I had a privilege of meeting the architects who were designing these facilities for Emgem. And during the discussion, I got out

my calculator, to better understand the implications of this vision, of this story I was hearing. The architects have put in place a process that they have now patented called the hypertrack process and it's reducing the design time on a laboratory building for Emgem by as much as fifty percent. So a building that would take, let's say, eleven months, would be half of that, five and a half months. They are not compromising design. They have figured out a way to get a great design. What this dramatic speed in the service of Emgem means relative to their vision is that their products can get to hospitals faster and the company itself can be more successful in meeting its mission and its business objectives. If you took a beach ball, about this size, and you put inside some of the new Emgem products that are coming out, that's about a billion dollars worth of pharmaceuticals. So this Emgen vision has affected these architects and designers, which in turn has produced hypertrack, a powerful vision from Emgem and Stubbons Associates. Now Stubbons has just qualified for the new Novartist project, a Basel-Switzerland firm, so based on its track record with Emgem, Stubbons gets Novartist. How many design firms have a vision that is this motivating? We did a study with Design Intelligence not too long ago and this is what we discovered: eighty percent of employees working in design firms, do not understand that their firm has a vision. Room for improvement? One other quick case study is the Rose Planetarium. How many of you have been there? It's in the upper west side of New York City. It's a pretty special place. Here is the eighty foot aluminum sphere, from one side to another and a glass curtain wall that is the longest glass curtain wall in North America. But what you don't see is the passion that went through this. The architects and designers in Portshack partnership went door to door in this neighborhood to get zoning changes, to tell people about the vision for this facility, the Rose Planetarium, which is part of the national museum of the American Museum of Natural History. They also agreed to help the client raise the money. The client got the money they needed, got the building they needed, and you can imagine how much attendance has increased. This is one of the really hot venues in NYC today. It has turned around the business case of the museum. It was a very satisfying project for the designers and they had a unified vision of what they were going to do.

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*“As an individual, you have your own brand. Your firm or the organization where you work has its own brand”*

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Yesterday and today we've talked about brand. I'd like to give you my own twist to this thing. I'm going to talk about your sustainable brand and about building a brand that has a point of view with your firm's attitude and behaviour embedded in it. Although I think this is less true in graphic design than in architecture, lots of people in the design profession see the brand as just a logo or a moniker. You've heard that before. And this misunderstanding is actually holding design firms back because, as you know, this makes all the difference in the world. As an individual, you have your own brand. Your firm or the organization where you work has its

own brand, a promise that needs to be delivered. And the brand of the design firm is every bit as important as the brand of your clients. Intellectual capital is where your unique talent lives. Unfortunately, many firms underestimate the importance of their own brand. They do it for others but it doesn't occur to them to take it as seriously for their own firm. And this means the business model or the strategic model of the firm is actually blunted and compromised. Firms find themselves being considered with the pack, rather than being differentiated. If you pick five design firms and look at their websites, it's just amazing how similar they look, and sound. They generally present the same things about their services and from your client's point of view, this only reinforces commoditization. Authoritative brand, let's take a look at the concept. The ideal brand for a design firm will be highly relevant to the client audiences, whatever the category of services and highly differentiated. Very relevant, very unique: that is what creates economic returns for design firms. We can show this on a grid. Up in the right hand corner is the grand brand: at the top of the scale in relevance and far to the right on the differentiation axis. If your design firm is in that top right quadrant that's pretty fantastic. But if you are down where you are extraneous and not very differentiated, you could literally be in intensive care, as you see on the lower left or you could just be with the pack of other firms. And this is the army of Toronto designers. What we really want is to huddle here from time to time with the Registered Graphic Designers and share with each other but then disperse, right? Like football, huddle and disperse. Up in the grand brand is where you want to be dispersing to. You can all do it. This does not get segmented by percentages. This is the Thorn Crown chapel in Arkansas, the work of Faye Jones. I want to contrast this project and talk about branding for a minute. This project is in the woods. There's no road to this project, you have to hike to it. It's all built of materials that were brought in by foot to the construction site. It's made out of wood. It cost a hundred and thirty-seven thousand dollars to create and the architects' fee for this was twelve-percent; not an hourly fee, but a flat twelve-percent. Do the quick math and you realize the firm did this for almost nothing. That's Thorn Crown. Now what I would like you to do is look at this, a new chapel design by Santiago Collatrava, and this, the new Milwaukee Art Museum, which has many of the, shall we say, historical recall features of Thorn Crown in it. What we are looking at here is how the images of the products that a firm creates, affect its own brand. This is the body of work, the historical body of work, that is in the client's mind when they are making decisions about who they hire. Take the Disney Concert Hall in Los Angeles that just opened. Most of you have probably seen pictures of it and you can understand how much Frank Gehry was inspired by the Sydney Opera House by Utzen that is now over thirty years old. Brands are created by talent but it's more than the work of the firm. They're also created by the delivery of the firm, how well the project is managed, and how relevant it is to the client. I'm going to come back to this project in a moment. This is in Manhattan, the work of Hardy, Holtzman and Phfeiffer, and they have built a brand niche in the category of building theatres. Here are Radio City Music Hall, and one of their collegiate buildings at Texas Tech, a performing arts center. Here's a theater project they did in Alaska and here's the exterior of the performing arts center in Texas Tech University.

The reason I bring up Hardy Holtzman and Phfeiffer is this is a firm that is in the upper right hand corner. They do have a grand brand, but this is their challenge, they are competing with other firms who are doing similar works and also have a grand brand. Their firm always gets on the short list for projects but their hit rate, once they get to that short list, is not as high as they would like it to be. One of the myths is that great designers get all of the projects they go after. This is very rarely true. So you can be in the grand brand quadrant up against, let's say, six other firms in the same quadrant and still have a low hit rate because you are not high enough in that quadrant. I'd like to say one more thing. Imagine your firm up here on this scale. Even if you teach at a school of design, put yourself onto this chart and think about where your competitors are. And while you are thinking about that, think about your trajectory. In what direction are you moving? We forget that every firm is actually moving one way or another every day. You are getting a little bit stronger, little bit weaker, little bit more relevant, or a little less differentiated. This is very important for design firms to understand and, by the way, those of us who are in leadership positions in our firms, are unfortunately often in our own bubbles. We actually get callused, insulated from the reality of the firm's experience and our own perception of that reality. The younger people in the firm who have been there for less than five years, often know what's going on inside the firm long before the owners/leaders do.

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*“There are invisible but very important governing principles that mean the difference between the success and failure of a business.”*

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I'd like to focus now on leadership of the business. I think we have a crisis of leadership in the design professions. And yet simple steps and strategies and commitments and disciplines can increase profits consistently in the future. We need to make a commitment to be more profitable, consistently. Let's talk about firm sustainability. There are invisible but very important governing principles that mean the difference between the success and failure of a business. And it's important to understand why some firms are almost always profitable in any economy and other firms are not. It's also important to know how to generate and lead profit and how this can build a much more satisfying future for you in the design profession. Let's look at another chart our Regenerative Financial Model. A design firm with no profit has no future. It will be destabilized either going bankrupt or quietly closing its doors, putting a lot of dreams on hold. Two years ago, a firm told me they had not been profitable in five years. They were not able to make ends meet. They were very unhappy, and about ready to give up the profession. I sat down with them and said, “Do you own houses?” And they did own houses. I asked them, “how many of you have been paying your monthly mortgages?” And five hands, went up — they were all paying their monthly mortgages. Then I said, “Pay yourself just ten percent of the professional fees you are getting and put this into a separate account first before you do anything else. They had revenue of seven hundred thousand dollars but were losing money. Pay yourself just like you pay your monthly mortgage. Give this a try and see where you come out. They agreed to do this and you can guess the results. Now they are consistently profitable month after month because they have a discipline for it. They have a new discipline and a new leaner and more efficient operation. Now, that's a simplistic approach. But many of the solutions to the problems that continue to plague us are actually just that simple. We need to think of profitability as a design

problem just as you would think of doing a new website for somebody, as a design problem. Think of profitability as a design problem, too. As for the rest of this chart, you can see the future scan at the top, the firm on the left side is in decline, sustainable but not bustling and up on your right side it's regenerative. The profit percentage on the chart ranges from minus five percent to plus twenty-five percent. And the characteristics associated with these numbers are failing, below average, average, above average, and best of class. Best of class is the top twenty percent of the firms in your category of service. This is the regenerative financial model. I was talking with one of you before the session began, it was said that the multiplier used in the office is 3.7. That will get you to some pretty respectable profits, consistently, no matter what size the firm is or what the fee volume is. That is the sign of a very efficient firm that also has great internal systems, controls, and disciplines.

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*"I believe graphic design will become increasingly important in world affairs. There is a growing recognition of the power of design to affect human behavior."*

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We are all here today to reaffirm the power of design. We need to unlock this magic of design and innovation. I probably get into more design firms than anyone else in North America over two hundred firms a year. Strangely, many of these firms don't act or feel like design firms at all. It's the most wonderful profession today but to a lot of people it's a secret. I believe graphic design will become increasingly important in world affairs. There is a growing recognition of the power of design to affect human behavior. Let's me give you an example. We all know design is the creation of form and that in human affairs, form wins over content. This comes from the winner of last year's McKenzie Prize for the best article in the Harvard Business Review. His name is Richard Farson and this is what he says, "A written message carries more weight than a spoken one. A printed one is weightier than the one that's typed, which is weightier than the one that is handwritten, even though all the words may be identical." He calls these meta-messages, sent by the form of the message, and these meta-messages can be more powerful than the messages of the words themselves. And this is the business you are in. In management, one can observe the effect of physical design on human behavior, the power of form over content. For example, compare the participation in a meeting held at a long rectangular table with one held at a round table. The time spent, the agenda, the players, may be exactly the same at the rectangular table as the round table but as we all know, the patterns of interaction are very different. The discussion at the round table is usually more informative, the leadership is usually shared, and communications more personal. Further, changes in the physical design of the meeting will enhance the differences and the success of that meeting even more. This is why interior design, one of your sister professions, is so important to workplace productivity. To produce different behaviors, nothing needs to change but the physical situation. In part, this is why people don't

smoke in church. Graphic design is so powerful because you are the ones who create these situations and experiences, these understandings, through your work. And these experiences are actually more determining of what people will do, than personality or character, or habit, or genetics, or any other unconscious motives people have. You are not just designing products, packages, websites, and annual reports, you are creating situations and experiences, and these are creating better businesses, better institutions, and a better world. We are not talking about mere images. We are not talking about mere packaging. We are far from understanding the fundamental lesson of design if we only take it that far. The most important aspect of focusing on form is to bring it into alignment with the content so that we can embrace the context in advancing the goals of a project. When we do that, the magic happens. That's when the clients are thrilled and that's when we realize we are in one of the most important and satisfying professions on the world. We have a noble past, but I think it's going to be a better future. And I think we should have a little bit more robust self-respect for what we are doing in this profession.

As good as it is, design can be dangerous. Our last issue of Design Intelligence talked about this. Because design is so powerful, it has a dark underside. One of the new pharmaceutical companies, I won't say which one, just built a new headquarters. A year later, their stock was in the tank. Analysts said it was because the communications had become so poor after the firm moved into their new headquarters, that they became inefficient, and lost their edge. They stopped performing and functioning together as a team. And the marketplace implications as shown in their metrics of value, all came back to a problem with the interior design of the space. So sometimes design can be mindless and some designers are willing to dumb down the power of design. And I think others are using it in dangerous ways. In the United States, some uglifications are going on, banal shopping centres, communities eroded by awful highways, dividing neighborhoods, office designs that are row after row of dehumanizing environments. If you stop to think about it, there is graphic design that confuses value rather than giving it new clarity, and giving value clarity is what graphic design can do so well. But I think, in perspective the news is encouraging — design improves communication, it improves sales per square foot, it improves return on investments, it improves way findings. A firm we've worked with in Denmark, Schmitthammer-Lawson produced this powerful, black diamond library which has done so much for downtown Copenhagen. This is the stage set for Hairspray by David Rockwell; and Hairspray was so largely popular probably because of these changing sets. You heard from Pentagram yesterday and generation after generation they continue to be a real leader. They are doing so much that is important around the world today. They are a real beacon for the multi-disciplinary design profession. This is Lord Foster, you know who he is quite successful.

Let's talk about this slide. "A Passion for Service". Service but with passion. I'd like to talk about how important passion is because we live in very demanding times. Clients are not altogether educated about the value of design. Budgets are often cut to the bone leaving little room for the kind of creativity we'd like to bring. So when we are talking about professional services some firms have an enthusiasm and passion that other firms just don't have. Look inside

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*"Because design is so powerful, it has a dark underside."*

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yourself right now. Look at the behaviors you bring to your environment. Are you a designer of energy? Are you enthusiastic about this profession? Do you have a passion for the future of this profession? What would your colleagues say? What would your clients say? One of our clients just lost a 180 million-dollar fee project. The project was his to lose, and it came down to this: he did not come to the interview with enough energy. He had the body of work but his energy and enthusiasm didn't measure up to the others being considered. Passion really makes a difference. Here's where we hire the designers. It's what a lot of your clients think. They know when you are doing the new retail rollout for Dairy Queen and they know when you are doing the next annual report. But that annual report plays a significant role in shaping what institutional and private investors actually think about doing with our money. Everything we hear and see has to do with form. It's all about form. Form sends messages. Everything is amenable to design, especially the regeneration of the design firm, and that requires passion, energy, and enthusiasm. Don't forget, clients see some of you as operating on momentum not on relevancy. Clients see some firms creating new value, while others are squandering the old value. Sooner or later, every business model reaches a point of diminishing returns and that's where each firm's brand needs to get stronger or it will get weaker. Continuous improvement needs to be a commitment because design firms will transform and change or they will die. This is where we use the designosaur metaphor. In a research project we did for McGraw-Hill, we analyzed the pure design firms they rank in North America, the one-hundred and the five-hundred design giants. We evaluated every five year period going back twenty-five years. The size, the body of work, and the kind of projects they were doing, did not bear any relation to how well the economy was doing. It was all about who was making fewer management mistakes, who was better led and I think it all comes back to the five points we've been talking about.

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*“Everything we hear and see has to do with form. It's all about form.”*

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In my book, *How Firms Succeed*, we discuss the design enterprise model. My first book was on design enterprise model and the second book was *How Firms Succeed*. In every firm we see marketing, operations, professional services, and finance. Professional services is why most of us got into this design profession in the first place. Equally important are operations, finance, and marketing. We need to get the work, organize the work efficiently, do the work, then get paid for the work. And becoming more and more important in this are connectivity, productivity, and the speed that is part of the culture of your firm. Here are the five principles, again: 1) build a better vision for the future; 2) build a stronger brand; 3) make respectable profits. There is no reason why every firm and organization here can't be in the best of class zone. Let those firms in the United States take up the other eighty percent; 4) design excellence into every project whether it's a low-budget, a medium-budget, or a fantastic-budget project; 5) execute with passion.

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*“The real strength of the leader is the ability to get behind the group, to elicit the strength of the group, to inspire the group.”*

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In the five minutes we have left, I would like to cover a few paradoxes in design firm management. These come from the Think Tank sessions of the Design Futures Council. They are not original to me but I think they are very relevant to you. First of all: the more that you are right in your vision of the future, the more you may be perceived as being wrong. As you began to have these visions for the future, you may alienate yourself from some who are living in the past and the present. We’ve got a lot of people who are living in the past, and the present. They’ve had their pain there, they’ve had their fear there, that’s all they reflect on, and they just imagine that forward. Don’t be there. Your imagination should challenge the status quo. Your profession is not about the status quo. Don’t be afraid to break some of these rules. Improve inside the box but don’t be afraid to go outside the box. Paradox number two: there are no leaders; there is only leadership. Some people get promoted to be president of their firm and they think they’ve got it made. But unless they are capturing the essence of leadership, it’s hollow. It’s all about leadership, not about the title. You can be president, chancellor, director, vice-president, who cares? It’s all about leadership. And the real strength of the leader is the ability to get behind the group, to elicit the strength of the group, to inspire the group. It’s not about being on top and it’s not about building a hierarchy. It’s about being inside the story and it’s about the five principles we just talked about. Be a true role model and have stature in your field. Your peers in field look upon you as a role model and others in the office say, ‘here’s a mentor, this is somebody who is a role model’. Boost morale especially during times of stress. It is easy to boost morale while everything’s going great and you’ve just got three new projects to celebrate but how about when you’ve just lost three projects? That’s the test of leadership. Build the financial strength. Some people bring in the bottom line month after month, year after year. And other people just miss it and whine and complain as though it’s someone else’s fault. Leadership knows how to build financial resource strength. Leaders make sure communications are at an exemplary level. Inside the firm, you are a great communicator. Your leader is a great communicator. Think not only about inside, but outside communications. Collaborative spirit enriches the people and the organization, the collaborative spirit. Is there commitment to collaboration? Or is it talked about? Some firms are so into accountability they’ve forgotten about collaboration. Some firms are so much into collaboration, they’ve forgotten about accountability. But the collaborative spirit needs to be there. Work ethic without micro-management: work ethic is pretty common, but so is micro-management. We need a work ethic that doesn’t micro-manage. Applied brilliance, in electropower, the firm needs to have an intellectual truth, an intellectual understanding, an intellectual direction. And it needs to be a hothouse of creativity. And that’s where applied brilliance comes. And last of what we call ‘the twelve pillars of leadership’: the leader knows how to build rapport with other people, knows how to build respect and admiration. Those are the twelve. Score each of them one to one hundred. As you are just thinking about your own scores and the scores you have in your organization, look at this leadership wheel here. This is a true example of one of the Dean’s finalists at Cal Poly, San Louis. What we want to get is eighty-five or higher in each leadership characteristic. Here we went down to forty

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*“You can’t predict the future. There are all kinds of wild cards. But you can create it.”*

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in number twelve, that’s ‘building rapport, respect, admiration’. That came out of references and we also check at least three non-references who know the person pretty well. You can see number nine was also a real weak area. Number nine is steady and strong without alienating egotistic pride. “We have a lot of egos in this profession. Keep these in mind as you think about leadership and the future. And keep in mind that every great strength is a great weakness.” Bill McDana was referred to as a role model, a wonderful role model in green and sustainable design. He is but I’ll never forget talking with him in his office when he said, “you know, I have so much I need to do, how can I do justice to my students and my faculty here at the University of Virginia?” And that’s when he decided he needed to retire from that position. If you wait for the future to happen, you will not have a desirable future. The inability to succeed in the future is going to be a failure of your imagination in the present. We are pretty sure you have a better future. But you have to chart the course to that better future. You can’t predict the future. There are all kinds of wild cards. But you can create it. And you can have peace with that fact. Nothing is more invisible than the obvious. The solutions are right in front of you. Some of you never dreamed you were going to be doing e-commerce solutions. Some of you never dreamed you’d expand your service into environmental graphic design. The invisible obvious is where your real opportunities are for future success. Sometimes, people will come to us and say, “we need a new owner/president of this firm and we are sure that out of these one hundred staff members, there isn’t anybody who’s capable of doing it.” Well, guess what, they have one of the strongest talents right there under their nose, who would’ve gone elsewhere to create a great firm. Nothing is more invisible than the obvious.

In closing, I’d like to wish each of you, a powerful punch of good fortune in the future. You are in a wonderful profession, there’s tremendous talent in the future, and I thank you for inviting me to be with you.