Bringing corporate real estate business models into the 21st century

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Abstract

Corporate real estate (CRE) groups are experiencing a transformation in the way they conduct business and are increasingly finding that ongoing success depends on changing their business model from the traditional mode to one more attuned to the 21st-century business environment. That change is being accomplished through various factors which are not necessarily new but produce an innovative result when deployed together. Beginning with defining (or re-defining) their business, these groups must approach their overall service delivery using a customer-centric business model with a clearly defined mission, objectives, business strategy and even a marketing plan. Adhering to the saying that 'If it's not measured, it's not done', they must put in place a clear set of performance metrics and give serious consideration to using a balanced scorecard. They must make an assessment of their operating model (including the organisational structure and outsourcing programme) and implement cross-functional best practice processes with a prime focus on eliminating 'silos'. Finally, they must deploy the right infrastructure to support their operations by addressing such issues as technology and change management. Through these detailed planning and action steps, CRE groups can successfully achieve a new 21st-century business model that best supports their clients while enhancing their own value proposition.

Keywords: customer-centric, relationship manager, tactical/strategic, balanced scorecard, outsourcing, skill sets, cross-functional, best practice, silos, life cycle, change management, technology, collaboration

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INTRODUCTION

While the business world has undergone major changes over the last 20 years, corporate real estate (CRE) has been no idle bystander, with its corporate work environment experiencing radical change too. From 'mobile work' to 'green' to extensive partnering, CRE organisations are undergoing a fundamental and pervasive change not only in the way they provide their services but in the very services they offer.

Even a cursory exploration of published articles on CRE readily unearths common themes about the industry's changing role, with a heavy focus on restructuring how this field works and a recognition that the future calls for a new vision. In this vein, the 'perfect storm' seems to have arrived through which executives can and should analyse how best to take their respective organisation into the future in order to maximise both short-term and long-term success.

THE PLAN BEGINS WITH BUSINESS DEFINITION

Ting Kien Hwa, from the Faculty of Architecture, Planning & Surveying at the University of Technology MARA in Malaysia, observes:

> 'Corporate real estate constitutes a large percentage of [the] fixed assets of a firm. Changing economic, regulatory, competition and financing situations cause firms to undertake corporate reorganization and restructuring ... to meet the new business environment ... in the face of intense competition and technological advances.'[1]

Although the business world theoretically operates in a logic-driven way, with planning and well-coordinated execution moving together in lockstep, more often than not individual 'gut instinct' rather than planning drives real-estate decisions. However, a well-honed game plan should never be underestimated as the critical first step in bringing CRE business models into the 21st century.

Above all, it is important to recognise that CRE is a service business, with strong emphasis on the word 'business'. In that vein, pressure on corporations to find and eliminate overheads while improving the productivity of their people has brought 'C Suite' focus to the CRE portfolio. Increasingly, this field no longer flies under the radar, but is now a key part of strategic decisions at the highest levels of the corporation. As with the management of any other part of the corporation, CRE must develop a clear understanding of its vision and mission, define business objectives and strategies, and implement an effective marketing plan.

The reality, however, is that very few CRE organisations have formally codified their purpose in a strategic plan. On the contrary, although ideas such as 'client focus' and 'value proposition' do surface sometimes in presentations, few organisations can actually define how they support these catchphrases with an actionable plan. From wide-ranging parameters of locating the best office space to working with very detailed technical laboratory and refining or manufacturing space, in today's CRE environment it is more critical than ever to truly understand the customer's 'voice' (eg what drives their business). Meanwhile, it is just as critical to have a logical plan for collecting, assessing and implementing solutions that optimise those drivers. From a strategy perspective, that includes knowing what the customer needs for the specific purpose of doing its business so that the best overall real-estate solution can be developed.

Knowing the customer well also dovetails with the importance of building a long-term trusted adviser relationship. One of the most significant differences between CRE groups historically and those today is the shift from being a reactive provider of space into a more proactive mode: being a strategic partner.

This shift has become so pronounced that recent studies have shown a significant change in the desired skill set for real-estate managers from transaction management and project management to relationship building, communications, problem solving and knowledge of the corporation. In fact, the most senior roles in many CRE organisations are being aptly called 'relationship managers', ie people actually sit in on strategy sessions with client organisations rather than being notified of decisions after sessions are over. In other words, while the value of tactical knowledge has not evaporated, it has become secondary to what effectively could be called skills for the future.

The effect of this close working relationship can be illustrated with an example from the oil industry which embodies the essence of international real estate. Say a client is considering its presence in the Middle East and is looking at Dubai. Normally, the reaction of a traditional real-estate manager may be to begin thinking about a tactical solution — potential real-estate transactions in the Dubai commercial market; however, a fully-engaged relationship manager assessing the impact of real-estate decisions throughout the Middle East may be aware of significant opportunities in Abu Dhabi, for example, which not only provide a better real-estate solution but also better address the core business requirements for issues such as staff skill sets and access to markets. Thus, instead of being focused exclusively on developing a real-estate solution, the relationship manager more constructively helps the organisation to focus its internal business strategy towards an alternative, and potentially more profitable, conclusion.

Again, this kind of knowledge is being brought to the table ahead of the curve by the CRE professional gaining a strong relationship with the business and getting engaged early in the selection process rather than post-decision. When not engaged in the early stage, a major variable is left out of the decision process and real estate is just a reaction after-the-fact. That adverse result may lead to reversal of a business decision at substantial cost when the plan enters the execution stage and only then does it become clear that a real-estate solution is not viable.

Writing about Sprint's corporate real-estate strategy, Nicole Stahl explains:

> 'Among the major lessons learned throughout the project, he [Paul Savastano, Director of Sprint's Real Estate Technology Group], notes the importance of leadership, communication, partnering and investing in the future. He also recommends standardizing key processes and establishing enterprise linkage. One of the most critical issues was knowing what business CRE was in and what business it wanted to be in.'[2]

Revisiting Mr Savastano's observation about standardising key processes later will be helpful, but a key take-away is that a 21st-century CRE organisation must know what business it is actually in. In turn, it must align its operations with the corporate mission and provide services augmenting that mission, in a strategy going beyond simply the issue of housing staff or corporate operations. Today many corporations are taking note of a broader social responsibility and, accordingly, reducing the company's carbon footprint is usually at the top of that list. CRE activities should be linked to the high-level business objectives of corporate social responsibility and the triple bottom line — economic, environmental and social sustainability — or, more simply stated, profit, planet and people. In summarising the findings in his landmark 'Sustainability and Corporate Social Responsibility' research, Larry Barkley states:

> 'We interviewed over 100 senior real estate and shared services executives in leading organizations and we learned

quite a lot. From a progressive CRE organization's perspective, three key facts are worth noting: (1) Sustainability is here to stay. It has become "business as usual" in leading corporations and is part of senior management responsibilities and performance objectives. (2) Employees are overwhelmingly behind the initiatives. Sustainability is not viewed simply as one more corporate initiative. Companies have touched a universal vein of enthusiasm. (3) The new progressive CRE organization is the sustainability "lightning rod", or at least has that opportunity.'[3]

Another major initiative within today's corporate world involves adapting facilities to the reality of how work is performed. In today's changing environment, this is an area where a progressive real-estate organisation can lead the entire company. As noted by Rich Jordan:

> 'American companies spend an average of $8,500 per year to house a person in a dedicated workstation or office. That's rent, heating, lighting, air conditioning, maintenance, security, insurance, etc. But at any given time, 50 per cent of those people are not sitting in their seats. They're working, but they're working somewhere else. They're in a conference room or another building, at a client's site, in training, etc. So while they're working, their dedicated workspace is sitting empty and idle. By moving away from the traditional one-person-per-seat ratio to a shared workstation environment in a work practice where workers are able to reserve a space when they are in the office, people/seat ratios can move to 1:2 and all the way to 1:10 in sales environments. This enables a company to cut their real estate costs in half.'[4]

Taking this a step further, progressive CRE organisations are rapidly adopting alternative workplace strategies. Mr Jordan continues:

> 'Mobility is about consciously setting up situations where work is moved to people rather than people to work. When seeking to attract and retain top talent, employers offer salary and working conditions that meet the desires of top candidates. Studies have shown that when given a choice, as the most qualified job seekers have been given, they choose working conditions that give them flexibility so they can make decisions on how to balance their work and personal lives. Gen X and Gen Y workers are highly comfortable with flexible work conditions and the technology that supports them. They are not motivated by the promise of a corner office but by being able to do interesting work with people who can help them advance their careers.'[5]

Rounding out this initial set of business definition observations is the marketing plan. While marketing is not necessarily a word that CRE groups are comfortable acknowledging, it is a reality that they all must actually engage in marketing, even though they do so quite poorly in most cases. Their enthusiasm for the task could possibly be enhanced by stressing to them that marketing is not braggadocio, rather it is the sales side of what people do, whereby:

- The group members communicate that they understand what their client does and how to best meet their needs.
- Their experience proves their contribution to the bottom line (it generates additional profit or shareholder value).
- At a minimum, employee satisfaction helps to retain top performers.

In other words, do a good job and make sure people know that this focused and dedicated service makes their job easier: communicate, communicate and then communicate even more.

METRICS AND THE BALANCED SCORECARD

With a clear strategy in place, success will be defined by how the results are measured. This is not a new concept, but harks back to the old saying: 'If it's not measured, it's not done'. In the corporate world, therefore, the question is: 'What criteria will the CEO, COO and CFO use to determine whether or not we did a good job?'. Top-down measurement typically employs a return on investment (ROI) yardstick and such factors as how quickly the client gets the right facility, along with an occasionally under-appreciated factor of flexibility. For instance, perhaps the client's current facility needs were for a maximum of two years only, with plans to exit for another location subsequently. How well this somewhat unusual business requirement is met becomes the operative question. The related issue of metrics usually involves communication and benchmarking.

One of the USA's largest certified public accounting firms, Plante & Moran, identifies performance measurement as a prime topic, with the firm's website noting in its operational metrics/balanced scorecard section:

> 'Measurements drive behavior. Successful organizations know what and how to measure and how to use measures to focus their organizations. A balanced scorecard can help your organization focus on what is important and drive your success by making your strategy visible throughout the organization. It is this clear vision that leads your employees and management team to focus their energies on value-added efforts with results that are often remarkable.'[6]

When the subject of a balanced scorecard comes up in CRE, it is worth noting that, although this instrument is pervasive in today's business environment, it is not as commonly found within CRE organisations. Essentially, the balanced scorecard not only measures the financial impact of business decisions, but also measures innovation and learning, as well as customer perspective and business agility (eg experience and productivity). At Nokia, the CRE group, known internally as 'Workplace Resources' (WR), has deployed an extensive set of metrics within its balanced scorecard. In an interview with the author, Robert Fitzgerald, Director of WR's Global Practices and Program Management team, stated:

> 'Nokia Workplace Resources adopted a balanced scorecard approach in 2006, placing equal emphasis on the categories of People, Process, Customer and Financials. From our management perspective, this allows us to take a more comprehensive view of our metrics, keeps us focused on our priorities, drives continuous improvement and, most importantly, allows our decision making to be very systematic and fact-based. In addition, the balanced scorecard has created a common "performance language" throughout our organization and ties our personal incentives directly to how successful we are in meeting our balanced scorecard targets. Knowing exactly what we are going to measure and how we are going to measure it provides tremendous clarity and objectivity to the process.'[7]

ASSESS AND ADAPT THE OPERATING MODEL

The next area separating 21st-century CRE organisations from their peers is one which focuses attention on the organisation itself — more specifically, the organisational model. First, managing a portfolio in a consistent and effective manner almost always requires strong, centralised control. A recent study conducted by the Global Consulting Practice of CB Richard Ellis (CBRE) shows a delta in real-estate costs of about 24.9 per cent between organisations with central CRE management versus those with a distributed organisation.[8] Seth Martindale concluded his research as follows:

> 'What cannot be ignored is the distinct correlation between the strength of a CRE organization and the ability to create an efficient portfolio. The possible savings derived from CRE groups gaining the power they need begs the question for all large-scale corporate office users that don't give CRE the authority and visibility they require.'[9]

Even under a centralised group the organisational models take on many forms. Some are created along functional lines, such as transactions, facilities management and maintenance. In other cases, the real estate organisation focuses the team around corporate clients such as manufacturing or retail, or they may be assembled with more of a geographic orientation. Ultimately, the specific organisational model is dependent on the business entities that must be supported and choosing the right one for the organisation is a key deliverable of the strategic plan. However, top performers have also added another dimension that focuses on best practices: the centre of excellence (CoE) concept.

Typically deployed as a matrix component of the overall organisation, the CoE provides cross-functional leadership in areas such as standard business practices, portfolio strategy, programme management, change management and management of core performance standards. Twenty-first century organisations also have formal ties to the other service groups within the company, including human resources (HR), finance, information technology (IT) and sourcing. In some firms, these service organisations have a formal charter that ensures cross-functional planning and service delivery. In others, it is an informal networking with regularly scheduled interactions. Interacting on a deliberate basis with peer service organisations and steering the organisation through the use of CoE teams is a sign of a CRE organisation focused on skilfully managing 21st-century complexities.

CRE organisations need to assess and adapt their operating model to address the strategic vision which was discussed earlier, including the proper use of outsourcing and partnering. By partnering with other companies and shedding tactical services, CRE professionals can spend more time focusing on strategic activities that add value to the client-provider relationship. A major driver in the outsourcing game is the recognition of which skills add the most value. Fundamentally, the shift to a strategic vision of real estate and the role of the people who manage it is changing, as addressed by BNET (CBS Business Network):

> 'Faced with a need to improve productivity and increase global competitiveness, US companies are undergoing a fundamental re-engineering. To have a place in this new business order, corporate real estate must change its focus away from deals to a concrete contribution to the strategic goals of the business. Corporate real estate executives must think of real estate not as space, but a major resource supporting the productivity and competitive goals of the corporation.'[10]

Two real-world examples come to the fore in underscoring the above points. An electronics company, prior to assessing and realigning its focus, had 600 employees in its CRE group. Upon completion of the re-alignment, the group was supporting just as much real estate as before but with dramatically fewer people: approximately 25. Another company in the technology field went through a similar transformation, with its CRE group shrinking from several hundred to less than a dozen, due to a shift to strategic partnering for all tactical services and an internal focus on managing relationships.

Sometimes, however, this growing trend of shifting tactical services to the outside has to be balanced against certain realities. For example, a major oil company found that the specific skill sets required to support its research and development facilities mandated that it keep on staff welders and other technical people due to the unique certifications and training requirements not generally available through outside service providers. From this comes the conclusion that outsourcing all tactical skills is not always viable; exuberance for the concept needs to be mellowed by reality. That said, the 21st-century CRE organisation is moving deliberately towards a slimmer, more agile and strategic staffing model.

Beyond the shift in focus from tactical skills to strategic management is the cross-functional relationship with peer service organisations. Although previously mentioned, this relationship is so important it is worth stressing again. An interdisciplinary approach to addressing operational issues will showcase a focused vision and a progressive organisation adeptly addressing new realities. An excellent example is the on-boarding of new employees or contractors. As a practical example, if a desk is ready for a new employee but upon showing up they discover their computer will not be ready for two weeks, there has been a disconnection. Conversely, if their computer and business cards are ready but the space is not, a similar adverse result occurs. If a client organisation needs engineers on-board and working in two weeks to avoid delaying a major initiative, it is moot whether or not IT and CRE work overtime to make it happen if HR and sourcing take six weeks. For this reason, CRE cannot work in a vacuum but rather as part of an interdisciplinary team to help remove friction often occurring between internal peer organisations when interactions are left to chance.

In many corporations, senior management has recognised the cost of silo services and moved in a direction whereby the different organisations report to one common manager. But even if groups are formally aligned and integrated, by creating informal opportunities to meet jointly and discuss common touch points, barriers are broken down and friction preventing an organisation from doing its job well is reduced.

CROSS-FUNCTIONAL BEST PRACTICE PROCESSES

Having addressed the concept of cross-functional integration of services such as IT, HR and CRE it should be obvious that CRE is not an island and that silo thinking does not work in the corporation's best interests; however, this same silo mentality occurs too often within the CRE group itself. In recent years, pressure has been exerted on corporate services to reduce costs, and the various components of the CRE group have not been immune. Typically, the reaction to cost pressure has been to isolate a specific business function and determine how to drive out costs. On the surface, this seems both logical and prudent; however, driving efficiency into a single business function without fully understanding the ramifications upstream and downstream of that function is silo thinking and usually creates an unexpected and often undesirable consequence. Instead, CRE organisations focused on driving best practices throughout their organisation must look at what they do holistically — the lifecycle of their entire service cycle, the 'value chain' — weighed against a CRE portfolio over the life of the real-estate assets. Therefore, the key to successful process improvement is to fully understand the inter-relationships and interdependencies of all processes comprising the value chain. If a company focuses only on one aspect, such as lease acquisition, it may create a very effective leasing process that provides faster access to properties at a lower cost, but may be less than optimal to maintain, occupy and operate. Additionally, it may even affect the ability to recruit or retain key personnel. Focusing on a specific functional process area may improve that area but at the expense of the overall value chain.

Most business process assessment efforts start at the individual process level and there is indeed a reasonable basis for this approach. At this level, functional processes are most easily defined and, being highly tactical in nature, are easiest to measure. Thus, the logic of making these operational processes as efficient as possible should not necessarily be faulted. Improving performance at the functional process level is a major component of the recommended best practice; however, when process improvements are initiated outside of the context of an enterprise model, there is a significant risk of arbitrarily maximising a specific process efficiency at the expense of the operational mission as a whole.

DEPLOYING THE RIGHT SUPPORT STRUCTURES

Once the CRE group codifies its strategy, defines its core services and aligns its operations around standardised best practices, the next logical step is to support the people doing the work. Technology for real estate and facilities management is usually the first item that comes to mind. It should be noted, however, that technology is an enabler, not the solution. CRE organisations that have followed the approach discussed in this paper have found that they can effectively select, specify and implement enabling technology to reduce operating costs significantly and help drive performance around their metrics and their balanced scorecard. Those that have not stepped through the organisational activities as outlined often find their technology initiatives to be very expensive failures. With that observation as a teaser, take note that selection and implementation of CRE technology are not the subjects at hand. In concluding this topic, however, consider an observation worth taking to the bank: although technology is a critical component of almost every business solution, it is not the panacea that many managers think it is. Instead, focus on standardising and streamlining business processes, then select and implement supporting technology that will enable the processes to operate effectively.

Second to technology, 21st-century CRE organisations should implement a robust change management programme. Ferrell Jones reports:

> 'According to a study by changemanagement.com of 400+ global firms, the top reason for employee resistance to change is lack of awareness. In the same study, when asked what they would do differently next time, most teams would dedicate more resources to Change Management. Lessons learned were: you can never have enough [Change Management], start Change Management planning early and engage all partners, engage target audience early ("Line of Business Readiness Teams"), sustain engagement and momentum instead of only a "big splash" upfront, make it "real".'[11]

Change management is just a methodical approach to transitioning individuals, teams and organisations from a current state to a desired future state. In so doing, it requires creativity, consistent and repetitive communications, training, coaching, leadership and a dose of psychology to change the perceptions of audiences from resistance (and sometimes outright rebellion) to acceptance and, ideally, eager participation. Realistically, CRE in the 21st century is the engine for significant change in the workplace, from sustainability and mobile work, to relocations and mergers and acquisition activities.

Therefore, ensuring that these significant changes are implemented in an orderly, controlled and systematic fashion is critical. Progressive CRE organisations implement a formal change management programme that focuses on the human aspects of change. They guide their clients' personnel through the process in order for them to buy into change and achieve an orderly and effective transformation.

ACHIEVING THE OBJECTIVES

Taking stock of the comprehensive overview in the preceding discussion, the salient points of this new 21st century business model should help to frame several key issues for CRE decision makers in a fresh, and maybe even thought-provoking, way. Armed with this new perspective and ideally a new vision, one may logically ask how to put this overall strategy into place on a daily basis to best achieve long-term objectives. Realistically, to borrow from an oft-cited but apropos expression, CRE professionals should not find it necessary to re-invent the wheel. Rather, the route to navigating the future successfully can be drawn from the body of this text. Remember the call to action? Beginning with defining (or re-defining) their business, groups must:

- approach service delivery using a customer-centric business model with a clearly-defined mission, objectives, business strategy and even a marketing plan;
- implement a clear set of performance metrics and seriously consider using a balanced scorecard;
- assess the current operating model (including the organisational structure and outsourcing programme) and implement cross-functional best practice processes with a prime focus on eliminating 'silos';
- deploy the right infrastructure to support operations by addressing such things as technology and change management.

In following proven steps on the path of 'how to get there from here', not only is understanding the customer's 'voice' (eg what drives their business) important, it is just as critical to have a logical plan for *collecting*, *assessing* and *implementing* solutions that optimise those drivers. From a strategy perspective, that includes knowing what the customer needs for the specific purpose of doing their business so that the best overall CRE solution can be developed.

Taking the next step, the CRE professional should endeavour to build long-term trusted adviser relationships with customers to become engaged early in the selection process instead of post-decision. That includes knowing what business they are actually in (in the most literal sense), aligning their operations with the corporate mission and providing services augmenting that mission, beyond a 'business as usual' strategy. Being attuned to the times includes adapting facilities to the reality of how work is performed, an area where progressive real-estate organisations are not only rapidly adopting alternative workplace strategies but, in the process, leading the entire company.

Arriving at the marketing plan juncture, it is important to drive home a not always prominent fact: that marketing is the necessary sales side of CRE. In this summation of action steps towards achieving objectives, what does that entail? Pragmatically, CRE professionals should do a good job and make sure people know that this focused and dedicated service makes their job easier: communicate, communicate and then communicate even more. With a clear strategy in place, by knowing the customer, building long-term trusted relationships and communicating effectively, CRE success will be defined by measuring the results. Thus, measurement is the next step in getting 'there'. Knowing exactly what will be measured (and how) provides tremendous clarity and objectivity to the CRE processes.

Top performers have also added another dimension to their CRE organisations that brings focus on best practices — the CoE concept. The CoE provides cross-functional leadership in areas such as standard business practices, portfolio strategy, programme management, change management and management of core performance standards. Under the CoE model, many companies shed tactical services in order to focus more on strategic value-added activities in the client-provider relationship. Just heed the warning that shifting tactical services outside must be balanced against certain realities. An interdisciplinary approach to addressing operational issues will showcase a focused vision and a progressive organisation adeptly addressing new realities.

Step-by-step, the pieces come together in a way that creates a synergy that did not exist before. Once the CRE group codifies its strategy, defines its core services and aligns its operations with standardised best practices, the next logical step involves supporting the people actually doing the work, with technology for real estate and facilities management typically top-of-mind. Just remember that technology is an enabler, not the solution, and although technology is a critical component of most business solutions, it is not the often-perceived panacea. Instead, opt for the practical and focus on standardising and streamlining business processes, then select and implement supporting technology enabling processes to operate effectively.

Twenty-first century CRE organisations should next implement a robust, formal change management programme focusing on the human aspects of change. In this new era, CRE no longer flies under the radar. Narrowly focusing on excellence in the areas of operational and transactional efficiency is a recipe for extinction. Now more than ever, CRE executives are pressured to provide value to the organisation's core business above and beyond providing shelter. At the same time, corporate management expects proven economic and performance benefits for their real property investments.

Progressing to this point and recognising what is genuinely necessary to achieve the new 21st-century business model should not be a rude awakening for CRE professionals but simply a road map to enhance their success in building or advancing elite organisations. Organisations in this category are typically controlled through a centralised management structure, committed to a customer-focused operation and have a well-defined strategic plan supporting that focus. They have diligently assessed their entire organisation and have eliminated silo thinking while building strong interdisciplinary processes both internally and with their peer service organisations. They are heavily leveraged with outside partners allowing the internal staff to focus on relationship management and strategic planning. They are a highly collaborative enterprise and they have a seat at the table with the corporation's senior management. In other words, they have put these aforementioned principles and procedures into place and their new business model results from reconfiguring their entire work environment for optimal success.

Painting a picture of the 21st-century CRE organisation is a risky endeavour because there are as many exceptions as there are rules. Yet, one of the world's leading business publications makes a bold statement:

> 'Simply put, corporate real estate has become a key part of many leading companies' strategic plan. There's a central focus on corporate infrastructure integration and the evolution toward a new business mode based on today's networked global economy . . . Work itself will be done by collaborative teams operating across time and space.'[12]

Welcome to the CRE business model for the 21st century.

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