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Performance Management: Driving CRE results through properly-used metrics & KPIs

Guest post by Phil Wales, eBusiness Strategies CEO for IWMSNews

Introduction

Now a known fact, Corporate Real Estate (CRE) has morphed from a veritable back-office shop of tactical services into a higher-profile organization. While it remains critical to "keep the lights on and air conditioning working," the increasingly higher cost of real estate has made going beyond historical managerial functions no longer an option.

CRE managers now work in a pressure-cooker environment to ensure they provide a value-add to the organization's core business, which makes CRE very visible to business-line leaders and senior management alike.

Seizing on CRE's new visibility, businesses are making it clear that value-add is not a vague concept but the expectation that solid financial and performance benefits from their real estate investment will be delivered.

The scope of this new direction and the way it plays out is the story of how static, dry performance metrics have been reborn as a powerful tool driving results.

Aligning performance to corporate strategy

At the outset of a discussion of Performance Management, recognize that today's version is not the "rear view mirror" approach of asking, for example, "How many work orders did you close? How was your Customer Satisfaction rating?" While these are still relevant, the operative questions have become "How are CRE's assets performing against the corporate mission? Are we in the right places?" It's more about performance than operational statistics.

However, this transformation takes CRE managers into uncharted territory. There has always been a huge amount of information required to properly manage a major real estate portfolio.

Yet, that information set has not only exploded but must also be mined in very different ways. As a result, there is a tendency to create lists of new "metrics" which look impressive on the surface but have little or no value in practice.

Actionable metrics (specific & quantifiable) need to measure something adding value to the company in concert with CRE understanding both its own role and how it supports and enables — i.e., is aligned with — the corporate mission.

Even with operational issues dominating the daily CRE agenda, bringing strategically relevant metrics to the fore is not that tricky but does require focus to avoid becoming myopic in viewing the CRE world. Usually the difficulty is not about properly utilizing metrics, rather it is getting CRE out of the daily operational mindset.

For example, if CRE's answer to the question, "What are the drivers on this transaction?" is "We're getting the cheapest price possible," then there may be a real problem because the transaction may not be aligned with the strategic mission required of the asset even though saving money is good.

Why? CRE may get the best transaction cost but the property may not be at the optimal location or the building may not support an efficient layout for the intended activity. Therefore, the metric may say, "We closed the deal and got the best rate." But, in fact, it failed the mission.

Knowing the playing field

Of course, having everyone working "on the same page" is only possible if all agree on relevant terminology in the first place. In this case, key terms are metrics, Key Performance Indicators (KPIs) and balanced scorecard. Metrics are a quantifiable measurement for tracking/assessing business process performance.

KPIs are metrics but not necessarily vice versa with the differentiators being Actionable (able to affect goals with measurable impact) and Critical (measuring key aspects of business which impact goals).

Balanced scorecards represent how well the business is performing as viewed in several different ways.

Drawing somewhat of a fine line, it is important for CRE management to understand not just metrics in general but the right metrics. The key is balance which could take in such questions as "How are we performing on our tactical work, against Customer Satisfaction, against the corporate financial goals (not just our own real estate finances) and in support of the core corporate function? How effective are the assets we're managing? How much of our facilities are actually in use and the measure of obligation against the need? "In other words, CRE must take a realistic look forward strategically as well as how they are doing operationally.

Aligning metrics to corporate strategy

Taking the right metrics a step further, CRE must ensure that it reports the right ones to senior management about matters in which they are interested, as well as making sure that business units get the information they need. So, their staff must have visibility not only into their own individual performance but also into how the organization overall is performing.

Case in point is that individuals may be so concerned at meeting their own metric that they are not aware of problems they are causing another team member because they do not have that exposure. And the same applies to external partners with which CRE works.

Dashboards are often categorized along four reporting dimension: *senior management*, business units, CRE staff and outside service providers, around which metrics and service statistics are provided. Senior management, specifically CFOs, always looks at what something cost the company versus what it ideally could have cost.

The driver is that senior management is highly attuned both to cost and operational efficiency. That makes measurements critical, such as "What's the actual cost of operations? How well are we doing per capita or one region against another?," to begin seeing where efficiencies exist.

Or "How are we mitigating risks to allow the company flexibilities?" Though subjective metrics have their place, when it comes to financial metrics CRE should aim for hard-cost savings such as cash flow or EVA and look at occupancy cost as relative to their mission. The point is to know what's important to the C-suite, focusing on that and working toward the overall corporate mission.

Two, each *business unit* is also responsible for its own delivery against the corporate strategy and this category is one of the most challenging because of the difficulty in measuring actual impact on organizational productivity. Showing service-level ROI for the specific business/CRE partnership is the key focus.

Business leaders have specific requirements that drive their own alignment with the corporate mission although measurement of real estate performance will most likely differ from one business group to another. CRE must measure against these requirements in order to be able to optimize the CRE services and facilities. Without this alignment it becomes difficult to answer questions such as, "Why is square foot cost higher for one building than another?"

To determine effectiveness of services, regular employee satisfaction feedback should be measured. Again, the point is to align this metric with the corporate mission beginning by determining which criteria make an optimal score. In organizations without a strategic perspective the satisfaction goal is to get as close to perfect scores as possible.

However, in reality, alignment of services to the corporate mission may indicate that satisfaction scores should be something less than "perfect," reminiscent of an old saying, "The price of perfection is bankruptcy." Set targets with management that optimizes the corporate mission, then report against that target. Anecdotally, one manager has an interesting philosophy about reaching targets: on a 1-5 scale he always wanted to be above 3 but never above 4 because "by hitting perfect satisfaction every time we're costing the company money. We want to make sure the company is getting the best benefit because the customer is an employee."

Three, reporting to *CRE staff* involves making sure that CRE's own personnel actually know that what they are doing does add value and to focus on professional performance and staff development. In addition to the value-add, how is each individual's performance affecting their group, the CRE organization and the corporation as a whole? Employees need to know what they are doing matters and management needs to know that they are supporting the CRE mission while complying with mandated requirements such as training, safety, certifications.

Four, reporting to *service providers* involves focusing on using broad metrics to audit overall provider performance. Questions popping up daily include how service providers should be measured. When CRE closes all its work orders within the stated time, this is a good metric but are the outside service providers doing the right things and what was it costing, what is their focus as the business changes and do they have the flexibility to adapt to the changes?

Many metrics for service providers only focus on transactions, such as doing x-number of deals and closing them within a specific time against industry standard; but maybe those decisions do not necessarily align with the corporate strategy. Thus, a couple of actions are important: measure customer satisfaction against SLA compliance and leverage technology assets of service providers in developing customized performance management systems. The overall point is making sure that CRE performance criteria extend to the external partners as well.

The new reality

In looking ahead, CRE should recognize that today's business environment is cross-functional, customer-focused, delivered on a global scale and driven by a keen focus on continuous improvement and that performance metrics are an integral part of all this. CRE is no longer an isolated world unto itself but is intertwined with Finance, HR and IT, all of which are part of a larger whole and must work more in unison to do the measurably best job.

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