Performance Management

Looking for the "Killer App" for Corporate Real Estate?

By George G. Bouris, Francisco J. Acoba and Pay Wu

Yet Another New Initiative!

It is Monday morning and you are sorting through 50 new e-mails received over the weekend. The fourth e-mail, from the recently hired Vice President of Operational Excellence, announces yet another new corporate initiative entitled "Performance Management 2010." Given the need to increase competitive advantage, your company is proclaiming a renewed emphasis on value creation and heightened enterprise-wide accountability. Similar to many other *Fortune* 500 companies, your company is instituting an integrated, enterprise-wide performance management program. As the Vice President of Corporate Workplace Services, you ask: "What does this mean for our department?"

Why Performance Management Matters

The scenario outlined above likely occurs at a different company every week. As the discipline of performance management gains traction throughout the company, corporate real estate (CRE) executives can expect to be bombarded with demands for "critical" metrics and performance data from senior management, business unit customers, day-to-day practitioners, and internal business partners (HR, Finance, IT, etc.). Each constituency, however, will require different metrics, at different times, for different purposes to support its specific needs. In this situation, most CRE executives need to take a step back and ask themselves: "How should we structure our performance management program to address the needs of these varied groups?"

Performance management, at its core, is about proactively managing your company through the use of information and insight derived from a key set of actionable metrics that are both specific and quantifiable. Traditionally, CRE measures are operational, "rearview mirror" focused, and report mainly on past performance. Increasingly, new approaches to performance management require CRE departments to define a select number of forward-looking leading indicators that will influence strategic portfolio planning efforts, while integrating with broader company budgeting and planning approaches. This is especially true given the significant technology investments that major companies are making in Enterprise Resource Planning (ERP) systems. These ERP systems usually become repositories of business intelligence and are at the core of the financial and reporting infrastructure.

In today's business environment, senior management has come to appreciate that corporate real estate can substantively contribute to shareholder value creation. The following bullets demonstrate how mapping CRE performance to key business drivers can help produce results:

- Asset Effectiveness – CRE departments are often regarded as the "stewards" of a company's property, plants, and equipment. By implementing a comprehensive performance management program, CRE can factually point to how key strategies and leading practices are being leveraged to enhance asset values and returns.

- Capital Deployment – Real estate and facilities projects often represent a major component of a company's capital spend. By implementing a set of performance measures that monitors capital allocation and deployment during the entire capital project life cycle, CRE can effectively impact enterprise-level financial performance metrics.

- Selling, General, and Administrative (SG&A) Expenses – While many CRE departments are focused on aggressively managing their cost structure to reduce spending, many are not integrating their efforts within the context of company-wide SG&A targets. Being able to demonstrate specifically how CRE is contributing to improving or diluting earnings-per-share (EPS), net income, etc., is essential to being viewed as a core asset for the company.

- Work Force Enablement – By delivering effective infrastructure solutions to address a company's workplace and facility needs, CRE can more readily meet the needs of an evolving work force while improving overall employee productivity. The workplace environment is known to contribute to employee attraction, retention, and satisfaction, all of which should be integrated into a CRE performance management framework that can capture the benefits of CRE's programs in more closely aligning the workplace with the company's needs.

Is There a "Silver Bullet"?

Under pressure to deliver results, many companies become overly concerned with which framework to use to manage the program. In the end, whether a company selects Six Sigma, Enterprise Lean, the Balanced Scorecard, or any other leading framework, the key to effective performance management is the design and implementation of a comprehensive, systemic approach that is integrated with an overall process management framework. This is essential, as the performance management framework needs to measure the underlying processes of the department (and its employees), as well as those of its service providers.

In developing a performance management framework for your company, key considerations should include the following:

- Maturity of the CRE department
- Availability of documented department-wide processes
- Technology infrastructure and readiness
- Scalability of the performance management framework
- Complexity of the enterprise
- Practicality of the performance measures and selected methodology
- Focus area identification based on enterprise value alignment

Maturity of the CRE Department. Performance management can be instituted in any CRE department, whether you are a large "task manager" real estate and

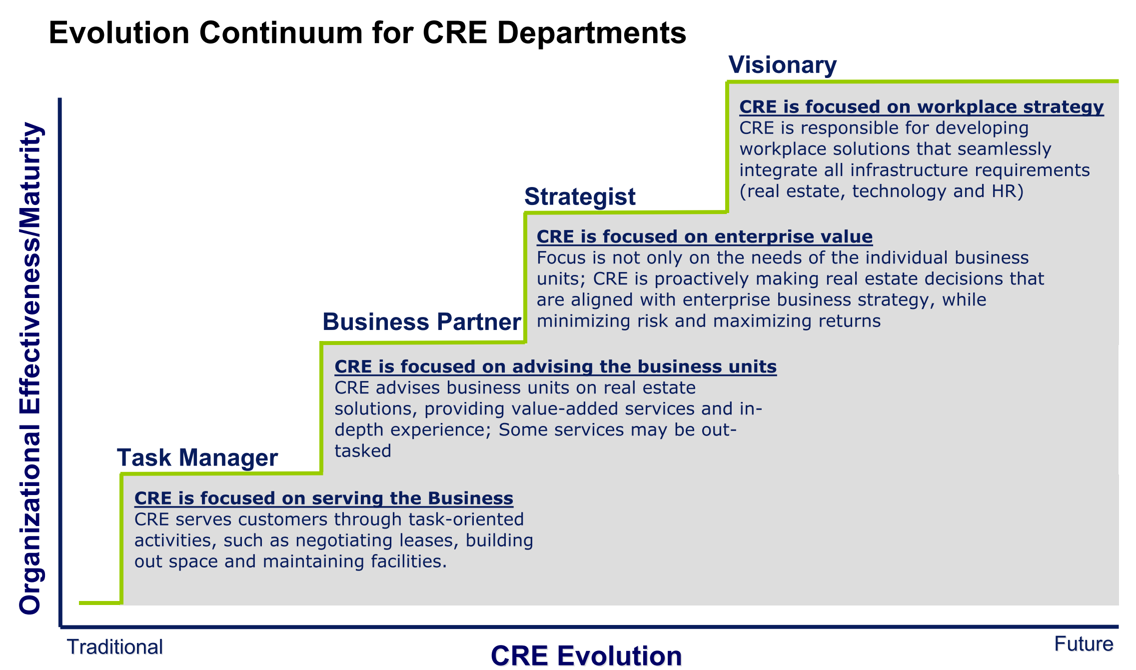

Figure 1

facilities department or a small "strategic advisory" group. While the classic "task manager" department tends to deploy performance measures that are lagging indicators, CRE groups in the "strategic advisory" category will typically present more integration with the business units and leverage results-oriented measures to help support decision-making.

As CRE departments evolve and mature (as depicted in Figure 1) from the "task manager" role to that of "strategist" or "visionary," the types of measures used to monitor performance and drive departmental/operational improvement will change. It is important to note that the maturity level of the CRE department is foundational to the definition of the performance management framework (see Figure 1).

Availability of Documented Department-Wide Processes. By engaging in an effort to document core business processes, CRE departments can learn a great deal about the effectiveness and efficiency of their current service delivery approach. The availability of documented department-wide processes can allow CRE to begin tracking cycle time, service delivery costs by process or sub-process, and the potential benefits of increased automation. In addition, documenting processes can provide insights into how performance is "linked" across multiple functions/departments. For example, a performance measure might be tracked by Group A, but 75 percent of the delivery responsibility may rest with Group B. Without properly documented processes and the ability to conduct a "deep dive" into specific sub-processes or activities, it becomes increasingly difficult to determine the "root cause" of performance concerns that might be highlighted by raw data.

As such, in developing a performance management framework and associated measures, CRE should consider the intended use of performance analysis. If a department is simply looking for performance indicators to track trends, then the availability of process documentation is not critical. If a department expects or is expected to track performance and leverage the findings to help drive operational improvement, then the availability of process documentation is paramount.

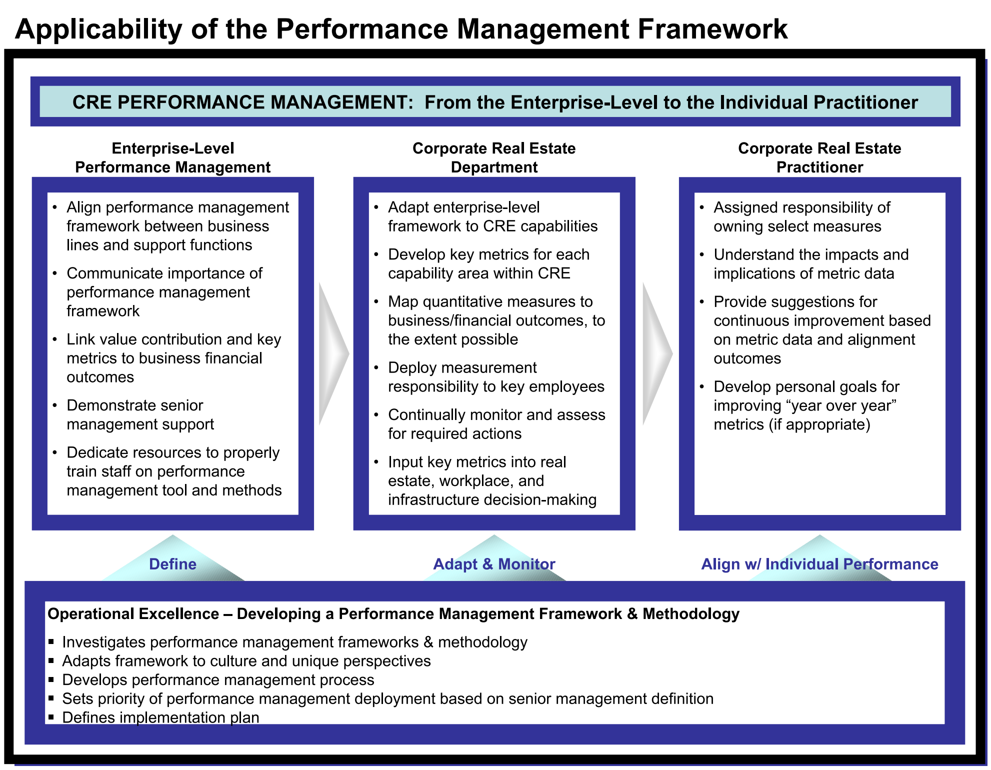

Figure 2

Technology Infrastructure and Readiness. A key enabler of effective performance management is the existence of baseline ERP infrastructure that tracks core business financial data. Many companies have completed ERP transformations within the past ten years. The next generation of ERP investment will likely involve the alignment of platforms and integration with previously "stand alone" CRE systems. To truly harness the power of integrated performance management, companies must leverage the repository of CRE-specific data and workflow information resident within existing real estate systems and begin to tie depreciation line items and operating expenses from ERP systems to these activities and data points.

A department's "technology readiness," with respect to the use of integrated information technologies to track meaningful performance data, will help determine its ability to meaningfully improve CRE performance. Ultimately, performance measures can be tracked without all the technology "bells and whistles" through good, old-fashioned manual processes. However, the lack of effective tracking tools results in time-consuming data-gathering and may negate potential benefits as questions about information timeliness and accuracy are raised by key stakeholders.

Scalability of the Performance Management Framework. CRE departments typically evolve and mature over time, in response to both enterprise-level business strategy shifts and leading CRE industry practices. To effectively support this natural evolution, departments should develop a performance management framework that is scalable and global in reach. In addition, a performance management framework should be readily applicable by the overall enterprise, by the CRE department, and by the individual CRE practitioner (as depicted in Figure 2).

Scalability addresses the need for a CRE department to efficiently supplement and/or modify its key performance measures as the company changes and grows or contracts. A scalable CRE performance measurement framework should include baseline measures that are aligned directly with business performance measures. At each stage along the evolution continuum, the CRE department should be able to incorporate new measures to reflect the new level of sophistication.

Complexity of the Company. For discussion purposes, if we consider "complexity" to be directly related to the number of different types of businesses, the performance measures for a complex company will differ from those selected for a company with uniform focus on one type of business.

In the same way that performance metrics are often not directly comparable from one company to the next, comparisons between the many businesses of a specific enterprise/conglomerate may be irrelevant if the baseline business performance measures are drastically different. For example, the performance tracking for a retail real estate portfolio will be different from the performance tracking for a corporate office portfolio, or that of a significant industrial portfolio.

Practicality of the Performance Measures and Selected Methodology. In most cases, a CRE department without a process management program and/or an ERP and business intelligence (BI) infrastructure in place will find it difficult to track actionable performance data and will likely compromise the integrity and accuracy of the data being measured. While a company can work to identify a salient list of key measures that it would like to track, it may be determined to be too burdensome to generate the desired metrics "manually" (Excel spreadsheets, etc.) without having the right information technology tools in place.

CRE departments should strive to establish a performance management framework that is both practical and aligned with enterprise-level performance management efforts. The measures should be relatively simple to track and the process/methodology should be sustainable.

In addition, CRE departments should endeavor to incorporate both quantitative and qualitative performance measures into their management frameworks. For example, cost-related measures provide only a limited window into overall performance. By including a broader set of measures, including service delivery, customer satisfaction, and other qualitative measures, CRE departments will be better able to communicate how they significantly contribute to enterprise performance.

Focus Area Identification Based on Enterprise Value Alignment. The key performance measures that are tracked by a CRE department should enable strategic decision-making activities that positively impact the company, as well as the performance of the real estate and facilities portfolio. Effective CRE departments use performance metrics to facilitate discussion about infrastructure decisions. For example, if the cost of service for a particular system is tracking on the "high" end, there is an opportunity for implementing a more efficiently designed system in subsequent similar deployment efforts.

On a much more sophisticated note, measures related to workplace innovation/research may suggest a different approach to addressing work force distribution or global deployment strategies. Suddenly, CRE begins to operate outside of the traditional "brick and mortar" envelope, providing value-added perspectives on market entry strategies, global expansion, and optimization of business strategies.

Where Do We Go From Here?

As performance management continues to evolve within the CRE industry sector, CRE practitioners should now understand that they hold the operational and fiduciary responsibility to positively impact overall corporate financial performance. CRE, as a function, is unlikely to regress into the "old school – nuts and bolts" operation at any point in the future. CRE performance management is here to stay, as is evidenced by continued integration into operational excellence efforts at the world's largest and most admired companies.

So the question is: Which CRE performance measures are right for your company? ***LEADER***

About the Authors

George G. Bouris, MCR is a Principal with Deloitte Consulting LLP and serves as the Leader for Corporate Real Estate Transformation consulting services. George and his diverse team of management consultants and subject-matter specialists provide consulting services to global Fortune 1000 clients in all areas of Corporate Real Estate, including Aligning Business and Real Estate Strategies, Financial Planning and Analysis, Merger and Acquisition Integration, Corporate Rightsizing and Restructuring, Business Process Improvement and Transformation, Information Technology Selection and Implementation, Organizational Structure and Design, and Performance Management Strategies.

Francisco J. Acoba, SLCR is a Manager providing Corporate Real Estate Transformation consulting services with Deloitte Consulting LLP. Based in Washington, D.C., Francisco is a frequent presenter at real estate industry conferences and serves as a faculty member for CoreNet Global Learning's Executive Development Program.

Pay Wu is a Manager providing Corporate Real Estate Transformation consulting services with Deloitte Consulting LLP. Based in New York City, Pay brings a broad-based, analytical approach in providing consulting services related to the development of transformation solutions for corporate real estate clients.

The Executive Development Program seminar, ***Aligning Real Estate and Business Strategy*** (MCR), will be held 2-4 August in Chicago and 11-12 November in Orlando. Visit www.corenetglobal.org/edp to learn more about the seminar and to register.

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