Strategic Facilities Planning: The Organized Imperative

by Carl Kane

To make the most positive contribution to the corporate bottom line, real estate managers must understand all aspects of the relationship between corporate strategy and the organization of real estate functions.

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Introduction

In this article I would like to address one of the key elements of the strategic facilities planning process. Often overlooked and frequently misunderstood, this element provides a critical link to corporate strategy overall. That element is the organization of the real estate function.

When we talk about the corporate real estate function, we are not just referring to the real estate department, per se, but to all of the relevant components of the real estate functions throughout the company. In this context, organizational thinking offers a prime opportunity to real estate experts who are willing to see a bigger picture. For those real estate professionals who are not willing to see the big picture, organization is a trap from which they may never emerge.

To make this point, I will present several basic organizational concepts as they relate to corporate real estate overall. I will begin with an overview of a top-down strategic facilities planning model. This model will highlight the dual role of organization in the facilities-planning process.

My focus will be on the specific functions, roles and responsibilities related to real estate and real estate planning. After providing this as background, I will examine the relationship between corporate strategy and the organization of these real estate functions — how we put them together. To conclude, I will discuss some key implementation issues and how to make the whole process work.

A Top-Down Facilities-Planning Model

Facilities planning, like other aspects of business planning, stems from a common source: business strategy. The classic model for linking strategy and the business plan is outlined in Chart A as a top-down approach with strategy at the top. The notion here is that all aspects of business structure, operations, facilities planning and the like are determined by basic business strategy decisions concerning the nature of the business: manufacturing, consumer goods, distribution, etc.

The next link in the model is structure, or how responsibilities and relationships are organized to fulfill the business mission. Here we are talking about differences between centralized and decentralized structures, as well as those models which fall in between. Organization determines the day-to-day manner in which a business operates — that is, how work, products and information flow. The whole process can be viewed another way: a change in strategy impacts structure; A change in structure impacts operations; and a change in operations and all of the above may lead to a change in facilities and facilities planning. This is the process that I am going to track.

The Organization Variable

In the context of the top-down facilities-planning model depicted in Chart B, the organization has a dual role related to real estate and facilities planning. First, there is the obvious role of organization in terms of corporate structure and as an element in overall business planning. The second, and much less obvious role of organization is the structure of the real estate function itself and the impact that this real estate organization has on strategic facilities planning.

Specifically, the organizational variable has four direct impacts on facilities planning:

— Who does it?

— How does it get done?

— What does it look like when it is done?

— Who is responsible for the results when it is all said and done? (This is a critical feedback variable.)

Real Estate Functions, Roles and Responsibilities

On a broader level, there are five primary functions to consider in real estate planning:

— planning,

— acquisition,

— financing,

— management and

— disposition.

Planning is only one of the five functions listed above, and it is intimately related to the others. It is important to keep that in mind.

One of our clients tried to separate planning from acquisitions of real estate. Planning was set up as a division function, and acquisition was set up as the corporate real estate function. However, no amount of acquisition expertise could overcome the poor planning that was being done at the division level. These functions really have to be considered together.

Moreover, all of these functions can be broken down. This is just the first step toward defining the specific roles that are involved to fulfill all of the elements of planning, acquisition, financing, management and disposition. These roles are:

— policy,

— execution,

— coordination,

— information

— review,

— approval and

— control.

Each of the roles listed above has to be dealt with in some fashion in designing an organization. For example, in the client case that I just mentioned, we simply had corporate real estate change its role to set policy for planning and to review all plans prior to approval. That really put the corporate real estate group in a vital position in the strategic-policy loop and corrected some of the problems that I mentioned.

The final ingredient for putting together a real estate organization is to define specific responsibilities for the various roles that make up the functions (see Chart C). This is not the only way to do it, but I think it helps to put some name tags out there to show the kinds of people that I believe have, to some degree, a responsibility to fulfill in corporate real estate facilities planning.

Within an actual company, the real estate functions — planning included — can be distributed throughout the organization at various levels, including the one or more real estate departments which may exist.

Consider the example shown in Chart D. This example depicts a highly decentralized company with a divisional structure. The corporate real estate planning function encompasses many areas of responsibility — not just corporate real estate — as specified here. In this example, the role of corporate real estate is primarily a coordination and review role. The execution responsibility is pushed down to the division and general management people, and both the general managers and corporate finance people are responsible for approval and control of the planning process.

Strategic Factors

Now, the organization shown in Chart D seems like a plausible enough structure, but the real question is: Is it the best structure? Unfortunately, there is no universal answer to organizing corporate real estate and facilities planning, and many factors must be evaluated — not the least of which is how the responsibilities for the four other functions are organized. But more important still is the impact of key strategic business factors on the real estate organization. Just what are these factors and what is their impact on designing an appropriate real estate organization?

There are a variety of strategic factors that we have to consider (see Chart E). In how many lines of business is the company involved? Even in a single line of business — like fast foods — there are different needs to consider such as distribution outlets, retail facilities and office requirements. The issues in a multifaceted, multiline company are even more complex.

Another question is: Are the businesses homogeneous or are they all different? For example, a company with many different product lines may share a common distribution system. In another company, the primary common need may be for office space.

Here are some more questions to consider: Is the corporate structure functional or divisional? How is the rest of the company outside the real estate function organized and how does the company operate?

Are the locations geographically diversified? Also, how quickly is this whole setup changing?

The last question to deal with: Is real estate a separate line of business in itself? In many cases it is. We had one client who went into a joint venture to obtain ownership advantages, but they forgot that they needed an organization to plan and manage those assets.

And there are other factors to consider beyond these, many of which may be specific to a particular company and its needs. Some of those examples that we have dealt with — particularly in financial services — include microwave communications and other specialized technologies.

In general, the primary influence of any of these factors is to favor either centralization or decentralization of the real estate function, roles and responsibilities. For example, in a situation where there are many lines of business, Chart E suggests that these elements be decentralized. This would be very consistent with the need to push down the process to the individual divisions in order to deal with individual division needs which may be very different.

In one case we were involved with a major manufacturing company in which the divisions were responsible for virtually all functions. The only problem was that no one, not even corporate real estate, finance or any of the other functions we indicated, was responsible for evaluating the results of the division's real estate activity, and the results were not good. The real estate was undervalued, underutilized and being sold below market value. By pointing out these factors, we tweaked the organization's interest involving corporate real estate in policy and control, a strategy they incorporated in their management plan. We also convinced them to adopt a current-value accounting and reporting system for the real estate assets under consideration.

Going back to Chart E, if the business lines are homogeneous, the model favors a more centralized organization of real estate functions. We did this for a national transporation client with which we were involved. We recommended a centralized corporate real estate group with, however, some regional substructure. Also, given the fact that the individual operating units were quite homogeneous in their business, we established a standardized planning function for real estate needs.

The point I am trying to make is that all of these factors really need to be considered as a whole and given relative priorities.

Another point to bear in mind in considering centralization vs. decentralization is that the organizational alternative is not all or nothing. You do not simply choose between centralization and decentralization; there are many aspects that can be modified to fit specific needs. Responsibilities can be distributed based upon the five major real estate functions and the other associated roles that I mentioned earlier. This leaves many alternatives to consider for designing a real estate organization.

Implementation

As indicated in our top-down model (Chart B), strategy is only a starting point in designing a real estate organization. Other issues need to be considered, as shown in Chart F below.

Chart F

Implementation Issues

— Organization Skills/Qualifications

— Organization Evolution

— Performance Measurement/Evaluation

— Compensation

— "Bottom-Up" Influence

One of the most significant issues is the relevant skill- based qualifications of the organization. In one situation mentioned before, we had to create an asset management organization and a process to fill a void. The company simply did not have that kind of capability intact. On the other hand, expertise may already be in place, but may be hard to move around or replace. One of our clients centralized its office activity but left its distribution requirements to the divisions as a short-term compromise. The tradeoff here is in taking advantage of the organization's existing capabilities and people to design the real estate organization around these individuals, or establishing a new facilities planning structure and qualifications as indicated based on strategic needs.

In any case, both the structure and the staffing are likely to change over time as the company evolves. So, to a certain extent we are shooting at a moving target.

Once an organization has been set in place, the next key issue to consider is performance measurement, monitoring and evaluation. And these factors clearly will vary with a defined organization.

In one situation corporate real estate was held accountable for real estate assets, but division management decided when and at what price to sell. Obviously, that organizational structure presented problems.

When we start looking at performance-measurement evaluation and even compensation, we are basically striving for congruence - - getting the whole system to work together. Naturally, compensation is one of the linchpins. While it may be difficult to link specific real estate tasks, we can track overall responsibilities and performance very readily. In the last case cited, a division manager got no credit or profit-and-loss (P&L) impact for a good or bad real estate decision. So, in some ways, it was really no surprise to find out that he was not paying attention to the real estate assets the way he should have been. In this instance, we realigned the monitoring and performance measurement and compensation system.

Conclusion

The organization variable has so far been discussed in the context of our top-down model (Chart B). Is there such a thing as bottom-up influence? I think that is a major question in the minds of many corporate real estate professionals. And the answer is yes. In fact, the process or mechanism for exerting bottom-up influence is precisely the same as we have discussed in this article. That is the organizational variable. The strategic planning that drives the whole process from the top has organization involvement, just as it has facilities planning.

The role of real estate in corporate strategy is more critical now than ever, given the recent trend toward restructuring, mergers and acquisitions. But the involvement of the corporate real estate department has been less clear and harder to predict. The main reason for this, in my opinion, is the limited organizational responsibilities which relegate the corporate real estate function, to some degree, to the backwaters of organizational significance.

How many of you have actually seen, much less read, the corporate strategy and plans of your companies? I doubt very many of you have. That is where I suggest you get started if you really want to get involved and exert influence. Next, focus on the organization and your responsibilities vis-a-vis others in your company.

Part of my message is that real estate does not just exist in the real estate department itself. You have got to take a look at the distribution of responsibilities throughout the company to bring real estate skills into maximum focus to make the best contribution to the corporate bottom line.

In all likelihood, you will have to change to keep up with the evolution of corporate real estate. In order to make the process work top-down and bottom-up, you will have to think like a top manager and be more aware of all aspects of corporate real estate, particularly the financial and accounting issues that are driving much of corporate real estate strategy.

For example, do you know what Financial Accounting Standards Board

(FASB) 94 is? It is a new accounting tool which may force consolidation of real estate ventures and subsidiaries in public companies. FASB 94 will have a very significant and material influence on the way corporations are going to manage their real estate.

If you want to get into top-down planning as we have discussed here and begin to contribute bottom up, no one is going to give you results on a silver platter. It is going to be up to you to achieve the rewards of solid strategic facilities planning.

SUGGESTED READING

1 Day, L. Linn. "Facilities' Role in Strategic Planning," *Industrial Development,* March/April 1988, pp. 12-16.

2 Pittman, Robert. "Integration of Real Estate into Corporate Strategy: a Progress Report," *Industrial Development,* January/February 1989, pp. 2-3.

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