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Using Workplace to Achieve Competitive Advantage in 2012

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FOREWORD



I am delighted to present 2012's first CoreNet Global UK Chapter White Paper. The Paper was developed off the back of our latest "Knowledge Exchange" on how to use your workplace to achieve competitive advantage in 2012.

Workplace is increasingly moving up the corporate agenda, with cost saving initiatives being the main driver. However, as we discovered during the session, there is no "prescribed" course of action; each company has different drivers, requirements and challenges. In the face of such variation, events such as the "Knowledge Exchanges" are vital to learn from each other's experience and re-iterate the importance of being agile and adaptable.

I therefore hope you find the following paper an interesting and stimulating read with lots of insight to apply to your organisation. As always, the commitment and experience of our speakers is vital in ensuring a successful event. I would therefore like to take this opportunity to thank our speakers, Dr Bridget Juniper from Work and Well-Being Ltd and Max Holliday from WPP. I would also like to thank the attendees for their engagement and contribution, which played a crucial role in delivering these insights. Thanks also to Richard Taylor at Corpra for facilitating and leading the debate.

Lastly, we are grateful to CBRE for their sponsorship, and a special mention to the planning committee whose voluntary endeavours make this possible.

A handwritten signature in black ink, appearing to be 'Ian Smith', written in a cursive style.

Ian Smith
President, CoreNet UK Chapter

INTRODUCTION

While staff satisfaction features as one of the core elements of competitive advantage for many corporates, the reality is that cost-reduction is the predominant focus of most corporate real estate (CRE) activity, and one to which other objectives frequently take second place.

The focus of this paper, based around a recent knowledge exchange event, is to explore the contribution that workplace issues can make to corporate competitive advantage; the obstacles and opportunities involved in achieving these goals; and the critical success factors likely to be involved in enhancing these gains in the future.

RECOGNISING THE ROLE OF WORKPLACE

There is an emerging body of evidence, gathered across a range of different industries, showing that workplace characteristics feature very prominently as a factor in employee performance, and therefore on overall competitive advantage. Despite this, the links between property and facilities on the one hand, and performance and efficiency on the other, are still widely overlooked. The reasons for this are not always clear. However, it does suggest a lack of understanding at a strategic level about how real estate aligns with performance, and also that the available evidence and models ought to be more widely-used.

Some of this may be to do with survey design and definitional issues. Staff satisfaction surveys are widely-used by companies but are very variable in quality. Questions along the lines of “how satisfied are you?” are not uncommon. However, they often fail to identify the specific factors that contribute to staff satisfaction, or their relative importance. Such surveys fail to tap views on the workspace that are sufficiently granular to provide links to performance and, in this respect, are a missed opportunity. There are also conceptual issues around the measurement of well-being and the position of workplace within it. Well-being is a multi-dimensional concept, and productivity in the service sectors in particular, can be difficult to measure.

Nevertheless, there is increasing focus on rigorous and credible analysis of where the workplace environment is able to impact part of an employee’s sense of well-being. In other words, the concept of employee well-being is beginning to gather momentum. As well as being a more reliable indicator of job performance, it is uncovering the importance of the workplace in an organisation’s bid for competitive advantage.

Evidence now exists from well-constructed analysis across a range of sectors (including transport, professional services and call centres) that workplace and facilities exert a sizeable influence on employee well-being. They link conclusively to corporate competitive advantage indicators such as absence rates, and intentions to leave.

It is estimated that, in a 1000-staff company with 200 senior managers, the combination of absence, presenteeism and attrition can result in costs of around £8.5m per year. With facilities and working environment strongly implicated in these issues, there is a clear prima facie case for aligning workplace with corporate competitiveness a lot more closely, and for involving workplace professionals in performance-improvement initiatives far more than has so far been the case.

WORKPLACE INITIATIVES: DRIVERS, PROCESSES, EVIDENCE AND FUTURE PRIORITIES

While there is no single driver or motive for companies to embark on workplace initiatives to boost competitive advantage, some common themes are evident. Many of these reflect the idea of treating space as an enabler of best practice and creative behaviours (rather than just a passive factor of production) and being explicit about the intended benefits of alignment.

One prominent area is facilitating personal interaction and satisfying the changing aspirations of different groups in the labour force, particularly of Generation Y – young, mobile, technologically-literate and environmentally-conscious workers. In some cases this reflects a perceived need to counter negative perceptions of some sectors or types of company (for example, banks). More generally the driver is empowerment of employees in designing and using their own space as opposed to imposing uniform “top down” solutions. In this respect, flexibility is absolutely paramount. This is not just because the needs of different groups are highly diverse, but also because the needs of given groups are themselves dynamic. So, as well as facilitating employees’ immediate needs, effective workplace schemes should also be anticipatory enough to accommodate (or at least not impair) positive future changes in workstyle.

While a high degree of importance is placed on facilitating interaction between employees and teams, it should not be assumed that this always translates into greater proximity. With more corporates operating globally, and employees forming virtual global communities, there is often a need for space arrangements to encourage global as much as local interaction. Indeed there is a view that global teams are actually more interactive than local teams, simply because they have to be. Featuring strongly in corporates’ thinking, is the need to understand the types of interaction that have to be encouraged; creating positive space associations and; distinguishing between “public” and “private” space.

It therefore follows, that there is no universally-applicable system or process for designing and implementing workspace programmes. Initiatives such as “facilities charters” and facilities management (FM) forums are viewed as effective ways of establishing two-way communications and virtuous feedback loops. It may be that some of these practices need greater clarity of focus so that they relate directly to the alignment of workspace and corporate competitive advantage. Above all, it is considered essential to provide some opportunity to gather and process information regarding facilities on employee experience and aspirations. This, in turn, generates a need to develop the capability to use and interpret qualitative data more effectively. Many corporates have become more proficient at gathering data on workplace and performance but still recognise the need to improve in using and interpreting it creatively. Indeed, knowledge management is increasingly seen as a major priority for many corporates in the context of more dispersed and specialist workforces.

As things stand, it is difficult to produce irrefutable evidence on the links between workplace strategies and productivity or competitive advantage. On many occasions, such benefits appear to accrue indirectly as a by-product of a significant event, such as a relocation. In some instances, even relatively small events have been known to produce significant side benefits. This has led some to wonder whether such events, or at least their consequences, can be artificially created in order to produce the same benefits with less effort. Indeed, examples exist of this type of event boosting competitive advantage, despite not necessarily being designed with this in mind. For instance, as part of Astra Zeneca’s global HQ move to Paddington from more traditional space, survey evidence was generated showing well-being benefits, which helped in rolling the design out to other regions. Similarly, post-event surveys following PwC’s introduction of a “hotelling” arrangement through the use of seat-booking systems showed measurable benefit. In many such instances, acceptance of a higher real estate cost base is seen as an acceptable trade-off for reduced attrition.

Best practice in this area could perhaps be described as a clear process for assessing both costs and assumed benefits ahead of implementation; provision for post-implementation analysis; and clear feedback processes throughout in order to repeat actions that have worked well and alter those that haven't. Workspace initiatives designed with competitive advantage in mind, need to be able to prove that they have been effective in terms of profits gained or losses reduced, rather than in merely subjective terms.

INFRASTRUCTURE FOR EFFECTIVE DELIVERY

In a general sense, competitive advantage can be gained through a variety of routes, including price, service, quality, location and innovation. In the specific context of using CRE to deliver competitive advantage, this raises the question of how best to organise the CRE infrastructure for maximum advantage and, just as importantly, how to measure its effectiveness.

A key element of this is the role and profile of the CRE function within an organisation, and its relationships with the rest of the business. The issue of how CRE interacts with other parts of the business to build a compelling story about its own impact is regarded as absolutely fundamental. In this respect, building and nurturing relationships with the business is a key imperative, such that CRE becomes a trusted equal partner, rather than a technician or a passive recipient of the wider business' strategy. One way to do this is to identify and support those CRE activities that confer genuine competitive advantage, as distinct from those that might be regarded as merely competent asset management. This requires consideration of the linkages between real estate services delivery and competitive advantage, as well as how to measure them.

Building CRE performance metrics around competitive advantage is critical, but also difficult. While at its best CRE can undoubtedly be a causal agent, it is often viewed primarily as a facilitator and, as such, measuring its impact may require a focus on intangibles such as enhanced creativity. These may be a lot more difficult to measure than traditional metrics such as utilisation rates or space per head. They therefore require more advanced data identification, capture and collation. Developing in this direction without compromising the quality of established activities is a key challenge for CRE. For example, it may be desirable to provide a stronger "front of house" experience for the benefit of staff and clients, but of course it remains necessary to provide functioning offices behind.

Identifying what needs to be measured is a key part of this. In order to provide a basis to demonstrate value, the focus should fall more on business metrics rather than traditional real estate ones. This is shifting the staffing profile of CRE functions in some companies towards people hired from the business, rather than pure real estate professionals. The key benefit being that they are well versed in the wider corporate agenda. This is aimed at creating a virtuous nexus comprising finance, CRE and key parts of the business. The aim is to develop a shared agenda of adding maximum value through a collaborative or partnering relationship

One area in which this is concentrated, is building sustainability and its possible contribution to achieving competitive advantage. There are various dimensions to this issue. While environmental credentials are now "taken as read" and therefore less of a competitive differentiator, they are still regarded as important in winning business. Good design has perceived benefits in terms of brand and image. It is also used as a means of focussing attention on real estate costs via internal chargebacks. Also prominent is the impact on the attraction and retention of labour (particularly young labour) and the coherence of the corporate community.

Even with proficiently designed CRE functions, relationships with space providers and others in the external market (indeed the very structure and character of this market) can have a bearing on implementation and success. At a simple practical level, it is often difficult for stakeholders to reach agreement, or provide

supporting evidence, that their vision of the ideal workspace actually delivers competitive advantage. It is accepted that evidence, particularly of a quantitative nature, is difficult to obtain. Precisely because there is no single “ideal” it is vital for owners, developers and CRE teams to listen closely to the needs of the business. In turn, it is important for the business to heed anecdotal evidence, others’ previous experience, and to assess the lessons for their own situation.

Perhaps more importantly the structural characteristics of the real estate market, especially in the UK, are regarded as an obstacle to the use of workplace initiatives to generate competitive advantage. In particular, the burden imposed by FRI leases on tenants, and the fact that SMEs generally have limited influence over landlords regarding lease terms, were cited as disadvantages to implementation, particularly for companies unable to exploit covenant strength. In general landlords are not regarded as being incentivised to provide innovative space. As a result they build “by numbers”. The perception that market relations are inherently adversarial and that this impairs co-operation between stakeholders often creates either inertia or volatility. It also heightens the need for strong CRE teams to militate the negative consequences of this, and to manage relationships between landlords and their own business. This, again, requires CRE teams to have a very detailed understanding of their own business.

SUMMARY

Much of the experience, of using workspace as a tool of competitive advantage, has been hindered by entrenched views of hierarchy and status, as well as by a lack of compelling data to support the case for planned action. Firm sponsorship from the senior management executive is seen as a pre-requisite for successful implementation. Equally vital is business-relevant information to provide a “proof of concept”. This naturally involves deciding what to measure in a way that is anticipatory and comprehensive, and includes evaluation of the client impact of proposed initiatives. In other words, effort needs to focus at least as much on business metrics, as on real estate ones, and the degree of alignment between. This indicates that a common model should be developed and used by both the business and the CRE function. It should articulate the way in which the business works and identify the ways in which CRE can add value, rather than defaulting to cost being the sole driver.

Collation and insightful use of this data is part of the process of CRE professionals evolving into strategic advisors rather than specialist technicians. Fundamentally, this is about CRE teams driving the agenda about the links between workspace and productivity, and having sufficient ammunition to do so. It also presents significant challenges around knowledge management within increasingly dispersed and mobile workforces, and contains potentially far-reaching changes in internal practices, processes and communication styles.