Strategic Asset Management and the Evaluation of Office Workplace Utility

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Abstract

The performance of the office workplace can be measured in terms of efficiency and effectiveness in delivering the strategic management of the facility. This paper provides a critical review of strategic corporate real property management. The paper reviews research on establishing strategic asset management and research indicating levels of adoption of asset management by business. Research indicating the development of asset and facilities management methods by business is compared over several decades. The research findings are tabulated and compared to indicate the growth of professional property management. The paper shows that, despite considerable developments in corporate facilities management, the take up by business has not kept pace with the expectations of the profession. The paper goes on to highlight the current trends toward workplace effectiveness and utility measures which could serve to further enhance the productivity outcomes of workplace provision but face constraints in achieving widespread implementation within the corporate real estate profession. The findings indicate that business is still ambivalent to its real property assets and is failing to recognise developments in the profession. The reasons behind this lack of strategic management pose a challenging research question of considerable importance to the future of the profession.

Keywords

Corporate Real Estate, Facilities Management, Strategic management, workplace utility

Introduction

As a work environment, the office is increasingly becoming important with an estimated 57% percent of the Australian workforce now employed as ‘white collar’ office workers, (Australian Bureau of Statistics 2000). The provision of efficient and effective office environments has spurned the facilities management industry and brought about a large amount of research into the best practice approach to providing office accommodation. The provision of office accommodation is a significant investment. In the United Kingdom it is estimated that some £400 billion is invested in providing office accommodation and that, of this, poor management practice leads to wastage of over £18 billion annually (Bootle & Kalyan 2002). In the USA the corporate real estate office market is valued in excess of US$1trillion total market capitalisation (Roulac 2003:170). Similarly in Australia the office stock comprises some 17.6 million metres squared with an effective annual rent bill of $3.9 billion per annum (Warren 2004). This significant
asset is not only one of the most significant investment vehicles, it is also the basis of much of the productivity of our commercial and public sector service delivery. It is the location of our knowledge workers and the strategic management powerhouse for industry and commerce. The office facility in conjunction with Human Resources and Finance are the key enabling functions of business (Haynes & Price 2004; Varcoe 2000). They support the business providing an environment that sustains business processes. The realisation that the office environment was a significant investment led through the recessionary period of the 1980s and early 1990s to a burgeoning facilities management industry in which many property related professions competed for the moral high-ground to provide the key skills needed to manage the office environment and fulfil their ambition to become recognised as the profession’s gatekeepers (Grimshaw 2003). Through the 80s and 90s and indeed up to date, the results of workplace performance measurement have been focused, often obsessively, on providing the most efficient workspace. The literature is filled with methods of measuring efficiency (Bottom, McGreal & Heaney 1999; Gilleard & Yat-lung 2004; Loosemore & Hsin 2001; McDonagh 2002; Varcoe 2002; Wang 1998), the objective being to deliver a workplace that is operated at the lowest cost per square metre. Office design has followed the efficiency trend with most organisations seeking to move functions from cellular offices to open plan designs, with still further efficiencies derived from new office occupancy practices such as hot-desking and hotelling (Reardon 2001; Warren 2003).

Yet there has been an increasing recognition, particularly in academic research, that the efficiency of a building does not always result in the most effective workplace outcome in terms of business performance. The focus on moving from a cost efficiency approach to office provision to a strategic approach aligned to business objectives has gone some way to addressing this problem but, as this paper will show, this strategic alignment of business objectives and property systems does not necessarily lead to a more effective workplace. The balance between efficient workplaces which are cost focused with those that are effective workplaces which are productivity and quality focused needs to be understood. Further still, more work is required to identify metrics which truly represent an effectiveness measure.

**Origins of Corporate Asset Management**

The history of facilities management is one of looking to improve real property performance and to add value to those organisations whose core business is one other than property. Perhaps the clearest starting point for the strategic aims of facilities management in relation to property can be found in the paper by Zeckhauser & Silverman (1983), which urged business to ‘Rediscover your companies real estate’. This paper, based on a survey of 300 US companies, found that at least 25% of total company’s assets were held in real property. This apparent revelation to business managers was further highlighted by the discovery that 40% of the survey participants did not carry out any form of property performance evaluation and consequently had no information about how a significant proportion of their companies’ assets were performing. What is more, 20% felt they had no need for a property inventory and, therefore, were not necessarily even aware of the property assets they owned. By inference, 60% of US companies were at least evaluating property performance and 80% believed they knew what assets they held.
The objective of facilities management became to enhance the management of those organisations which measure and recognise the value adding potential of their real estate and to encourage those ignorant of their asset base to ‘climb on board the facilities management wave to efficient property resource delivery’.

In the United Kingdom similar studies to that of Zeckhauser and Silverman were identifying inadequate management of property resources. Reports published in the UK by the Audit Commission (1988a; 1988b) highlight the shortcomings within the British public sector. Their findings indicated that property management was reactive and undertaken on an *ad hoc* basis, with ‘*little thought or understanding of how the improvement would affect the value of the property*’. Managers had no incentive to optimise space use and were not undertaking property specific performance monitoring, resulting in a lack of the necessary information base on which to make informed decisions.

A 1989 survey of 230 leading UK companies supported the Audit Commission’s observations in the public sector, showing limited performance monitoring being undertaken. This survey revealed that only half of the organisations measured their property operating costs and that just one third measured their space usage. In terms of decision support, 40% of the public sector and 33% of the private sector had full management information systems and, of these, only a smaller percentage could disaggregate the information to the single property level. The majority of facilities resourcing decisions were, therefore, being made with little or no information as to how assets were performing in support of the organisation (Avis, M., Gibson & Watts 1989).

The focus of the eighties, stimulated by tough economic conditions, was one centred around a rather sporadic use of property cost identification which, in turn, was used as a tool to drive cost reduction. The call to manage property resources strategically went largely unheeded in the search for greater cost efficiency in the use of non-core assets. The lack of sound management practices and adequate benchmarks to measure resource effectiveness meant that many facilities managers were unable to ascertain if their cost reduction initiatives were having an overall positive effect on the organisation.

The passing of the eighties saw an increased focus on the profession of facilities management. Joroff, Louargand & Lambert (1993) published a milestone in facilities management research with ‘Strategic Management of The Fifth Resource.’ This research provided a systematic ladder of facilities management service provision for professionals to aspire to. It identified the lower levels of ‘Taskmaster’ and ‘Controller’ as the technical and analytical roles of property provision and as the most commonly encountered resource service levels in top US corporations. At the same time, this research set the clear objective of achieving ‘Dealmaker’, ‘Intrapreneur’, and the ultimate level of ‘Business Strategist’ as the goal which professional resource managers should strive to achieve. Following this, the profession adopted the challenge of achieving the Strategist level which holds the greatest influence within the business and adds the most value to the organisation.

In Europe, research continued to show similar results to those in the US. Varcoe (1993) reported that leading UK businesses had 30% to 40% of their capital held in real property
and that 10% to 20% of the organisation’s annual operating cost was property related. Both Varcoe, B. J. (1993) and Gibson (1994) highlighted the need for organisations in the public and private sectors to develop strategic management tools and to gather property information in order to understand how this enables the effective delivery of business functionality. Organisations without these strategic measures lack any meaningful property resource direction or as Varcoe puts it ‘If your not sure where your going, any road will take you there,’ Varcoe, B. J. (1993:303).

The nineties became the decade of strategic outsourcing. After the cost cutting of the eighties, management turned to its ‘core competencies’ and engaged external specialists to drive further cost reductions and to free up organisational capital and staff resources. The period is summed up in the introduction to Deloitte & Touche LLP (1996), ‘The call to action has been ‘cut or be cut’ – or in more and more instances ‘cut and still get cut’. This survey of 254 US companies showed that, more than a decade on from Zeckhauser and Silverman, strategic management of facilities had not significantly increased its penetration into corporate America. Only 56% of organisations conducted any measurement of property occupation costs and just 43% benchmarked these costs against external industry peer groups. Around the same time, a UK study was reflecting a similarly slow take up of property planning, with 65% of organisations regularly measuring running costs. This research also suggested that a clear gap was beginning to emerge between those organisations with a proactive approach to property and those for whom property was still seen as a free good (Avis, M 1995).

By the latter part of the nineties, a survey of 100 UK corporations by Gibson (1999) showed that the number of businesses regularly monitoring property operating performance was back to 47%. Thus, by the end of the century and nearly two decades on from the birth of the facilities management profession, at best, the business community was highly divergent in its practices or, at worst, the message that property can and should be managed as a valuable asset to give shareholder value had not reached the boardroom.

**Strategic Management versus Operational Management**

The corporate facilities management profession, as indicated above, has developed rapidly into a global management profession which seeks to enhance the value added to non-property organisations through the efficient and effective delivery of real property resources. A review of the recent literature reveals that the profession has focused on the provision of ‘Strategic’ property solutions rather than operational management. Strategic management is the management of uncertainty over time and, in the corporate property management context, has two complimentary objectives; the removal of negative effects on workplace goals and objectives and, secondly, as a positive catalyst for change facilitating business success (Nutt & McLennan 2000).

The strategic direction of facilities management is perhaps most concisely put by Then (2000) in identifying ‘the need to link real estate/facilities decisions to corporate strategy’ and ‘the need to proactively manage functional space as a business resource’. This paper goes on to discuss in detail the development of a practice model linking the business strategy with that of operational property management. All strategic facilities management papers, however, recognise the need for a basic and reliable level of
management information on which to formulate decisions. The old adage ‘you can’t
manage what you can’t measure’ is as true for the strategic management of property
assets as efficient workplaces as it is of any other aspect of organisational and business
management. Indeed, as seen through the numerous surveys conducted throughout the
1980’s and 1990’s, revealing the paucity of management information relating to property
assets performance, it would be true to say ‘you can’t manage what you don’t bother to
measure’.

The grounding of strategic management in sound performance measures is succinctly
stated by Varcoe (1996), ‘only from the firm basis of a clear understanding of the overall
organisational performance equation that business decisions and value-based
recommendations for improvement supported by measurement can be made in the proper
context of true organisational need’. An identical view is expressed in the CREM
(Corporate Real Estate Management) study by Bon, McMahan & Carder (1994) where, in
discussing the need for performance measurement to link with managerial action, they
state: ‘The feedback loop opens the road towards continual incremental improvement of
real property’. The role of facilities managers in providing both the ability to develop
appropriate performance measures, while also interpreting this in terms of the overall
business planning process, is clearly articulated in Kenley, Hayward & McGeorge
(2000). They list the competencies required in strategic corporate real estate management
and include both elements of strategic decision making linked with measuring outputs. In
a similar vain Grimshaw (2003) list, ‘Facilities management is a strategic function
concerned with forward planning of physical infrastructure support,’ as one of the six
characteristics of facilities management, while at the same time listing facilities
management as ‘an economic function concerned with ensuring efficient use of physical
resources.’ The focus of the facilities management profession has, therefore, become
efficient workplace provision within a strategic business framework. There is, however a
clear lack of consideration of workplace productivity and aspects of effectiveness. Costs
per square metre of space are but one measure of workplace use and do not of themselves
indicate the overall return on investment to the organisation.

The eighties and nineties, however, while demonstrating a strong growth of facilities
management, did not show a significant change in the level of performance measurement.
The changes in the level of business performance measurement is illustrated in Figure 1,
with levels of performance measurement derived from the research surveys discussed
above.
What is evident from this graph is that, over the last two decades of the twentieth century, there was only a small increase in the number of organisations regularly measuring property performance. Despite the best endeavours of facilities managers over this extended period of time, a large number of businesses still did not measure even the basic metrics of property performance and, as a consequence, were not recognising the value of their assets to the organisation. The unfortunate fact remains, ‘that many executives still see infrastructure in simple terms – as a necessary (but sleeping) asset and a fixed (therefore uncontrollable) expense,’ (Apgar IV 2002). Even when property is recognised as a valuable asset, management of these assets is still rooted in an operational cost focused stance (Price 2004:353). Research is very limited on any aspect of strategic asset management implementation, with no recent data available in any of the major markets globally. This does not aid the profession in being able to recognise how it is achieving its objectives and fosters a limited ability of facilities managers to embrace efficient and effective implementation of corporate real estate strategies. Until this attitude to property is reversed and the added value that the synergy of property and business strategy can bring is recognised, then corporate real estate will continue to be a sleeping asset in the eyes of senior management.

**Future Strategy**

Facilities managers continue to look to further the strategic management of their corporation’s assets to deliver ever greater efficiency. Yet a survey of 103 companies Chief Finance or Chief Operations officers throughout Europe shows that many of these chief senior executives do not have basic property specific performance measures. A total of 77% reported utilising some form of performance measure, conversely 23% had no measure at all, and 37% received no management information on their real estate. While it may be encouraging to find that three quarters of businesses measure
performance, of these only half could identify individual property performance on a cost per square metre basis and even less, 42%, could identify the occupancy rate or contribution of property to total operating costs (Ernst & Young 2002). The survey also sought to identify those organisations that have taken a step further and utilised their information systems to develop more detailed property plans. The level of organisations reporting that they have developed strategic asset management plans is, not surprisingly, much less than those just measuring performance, at 45%. It therefore follows that 55% of organisations had not developed strategic plans for their assets.

The lack of adequate performance measurement or development of strategic asset plans is echoed in a survey of Australian business undertaken between November and December 2002 (Warren 2003). A total of 258 responses were obtained from property and facilities executives in major city locations throughout Australia. The results revealed that 68% of respondents undertook some performance measurement within their business. Only 30%, however, measured property operating costs per square metre, while 42% measured operating costs per employee. The larger percentage, 48%, rely on broader measures of operating costs as a percentage of profit. The survey also revealed that the level of strategic asset planning among Australia business is not dissimilar to that reported by Ernst & Young in Europe, with 33% of companies overall preparing strategic asset plans. The larger companies surveyed, those with greater than A$100m turnover, have a higher incidence of preparing strategic asset plans at 48%. By comparison, using the same A$100m turnover size criteria for Australian organisations undertaking property performance measure, 43% of organisations are measuring cost per square metre and 45% measure property operating costs per full time equivalent employee. The Australian data shows a higher overall level of property performance measurement, compared to the European study, at the broader organisational or portfolio level. However, the figure is lower than that in Europe when compared at the individual asset level.
The comparative levels of performance measurement, in Figure 2, shows little change from the surveys conducted in the nineties, with figures in the mid sixty percent. It is also evident from these two surveys, both in mature office markets on opposite sides of the world, that the level of strategic asset planning among leading corporations is relatively poor, with only half of the organisations surveyed in each location preparing plans. What is also evident is that the level of empirical evidence on the adoption of facilities management, at operational or strategic levels, is still low in most corporations. No corresponding research is available from the USA nor more recent research in any of the markets studied in respect of performance measurement. Few studies exist on the impact of facilities management measures on the performance of the organisation or indeed which property strategies or performance measures have the greatest impact on the core business of the corporation. (Manning & Roulac 2001; Price 2004)

**Efficiency over Effectiveness**

The need to implement a strategic approach to the provision of the workplace is increasingly being focused on the question of effectiveness over efficiency. This question of facilities management impact on the workplace must be considered in the context of the relatively limited success that the corporate real estate profession has achieved in
implementing strategic planning based around measures of efficiency. Efficiency can be relatively easily demonstrated with hard cost cutting data which plays to the strengths of the Taskmaster and Controllers in Joroff’s typology from the early nineties (Joroff, Louargand & Lambert 1993). A move toward a softer effectiveness approach to facilities performance measurement will present a number of hurdles in achieving even the same level of strategic implementation unless a significant change occurs in the way business manages its corporate real estate. For some time corporate real estate research has recognised the limitations of an efficiency benchmarking approach to asset performance evaluation, acknowledging that a dollar per square metre measure is not, of itself, a true indication of the assets ability to support and enable the desired business outcome (Amaratunga 2002; Fleming 2004; Gibson 1999). Indeed, it has been said that the most efficient building to manage is an empty building, yet its contribution to the business is obviously negative as it is not supporting or enabling any business functions. What is recognised in the literature is that the workplace must not just be efficient, it must achieve ‘best cost’ while acting to enable the business process undertaken utilising that property. It could even be considered somewhat irrelevant if a building is not efficient in its use of resources if that building is producing exceptional business results in terms of productivity. Thus a balance of benchmark measures are required which relate directly to the strategic direction of the organisation, its culture and organisational values. Metrics which seek to record the business productivity and the utility of the workplace and link these effectiveness measures to the efficiency measures are the only ones providing a holistic measure of the worth of the asset to the corporation.

The development of occupier measures of workplace effectiveness presents itself as a problem in that measurements are required of occupier perceptions of the workplace. These are not as clear cut as measures of efficiency and may vary from employee to employee. Thus it becomes difficult to identify a set of metrics upon which facilities managers, business managers, and occupiers can all agree. Examples of post occupancy evaluation will often seek to establish management’s views as to the outcomes from any particular office relocation, often in a format that seeks to justify management’s initial decision making process. These studies are frequently focused on surveys of management and the financial performance of the workplace. They rarely address the soft issues related to employee satisfaction and even productivity. Corporate real estate is an enabler of business and, as such must seek to support the productivity of the business, while balancing the requirements of management with the expectations and perceptions of the employees.

In a survey of public sector employees in the UK, Pinder et al (2003) sought to evaluate the ‘true end users of the office’, undertaking a series of group discussions and surveys to derive a set of workplace effectiveness measures and to rank these in importance. This research revealed that workers were able to derive a valid and reliable scale against which workplace utility could be evaluated. The measures established relate to appearance, configuration, environment and functionality of the property and form a basis upon which the authors propose to evaluate other workplaces.

In a similar attempt to derive a set of workplace utility measures, Clark et al.(2004) undertook extensive surveys of office workers in the UK in order to evaluate their response to 59 aspects of the building and office environment which were perceived to be
important measures of workplace quality. Utility is defined as the usefulness of the building as perceived by the worker’s expectations of the workplace. This research investigated configuration, environment, appearance and functionality of the work environment. In evaluating the utility of the workplace, these measures are used to gauge worker satisfaction in order to inform facilities change decisions. Recognising that the management rhetoric ‘employees are our greatest asset’, then satisfaction with the utility of the workplace should be reflected in the worker’s perception of their work environment (Clark et al. 2004;8).

A differing perspective is provided by Kaya (2004) in which the communication channels between owners, designers and managers is evaluated. The research shows that issues such as ‘manager’s insistence on seeing employees in the office’, are limiting the implementation of flexible work environments. The research also shows that the evaluation of the workplace is clearly related to owners and managers and their relationship with the workplace designers. It does not address the issues of the employee’s perspective of the workplace and their expectations and requirements in order to achieve maximum productivity.

Similar research being undertaken by the author with office workers in the prime office markets of Australia is revealing similar measures of workplace utility, clearly showing that there is a marked difference between the utility perceptions of facility managers, business managers and employees. It is likely that this mismatch between the perceptions of key stakeholders in the provision and use of the workplace is leading to a loss of potential productivity. The scope of workplace utility recorded in the Australian private sector is reflecting the broad areas identified by Pinder (2003) in that the workers focus on aspects of appearance, environment and configuration, however respondents also appear to stress the importance of location within the CBD setting which is not evident in other studies. The second phase of this research will seek to evaluate a larger group of employee respondents and to extend the evaluation of utility measures identified by employees to rankings by management and facilities managers. This will then provide a set of utility measures which can inform future workplace design considerations. The role of the facilities manager as the ‘intelligent client’ becomes even more key to the design and implementation of the best value facilities performance. With managers/owners driven by economic performance and a history of driving efficient property performance and employees seeking the highest level of utility from the workplace, it becomes the role of the corporate facility manager to achieve a satisfactory outcome for both parties.

Further research is required to establish a greater level of agreement on suitable workplace utility and productivity measures to complement the existing range of efficiency measures. The communication at board level of the elements driving productivity, effectiveness and employee perceived utility are the challenges that will be faced by the next generation of corporate facilities managers, while at the same time attempting to address the still under implementation of strategic asset planning across corporate property management globally. Only by developing clear metrics to measure and manage workplace efficiency and effectiveness will communication between management, occupiers and designers be established and methods of increasing
workplace effectiveness and utility be achieved bringing about a better outcome for all stakeholders.

**Conclusion**

Facilities management has come a long way since its inception. A wealth of research has been undertaken around the globe and there is little doubt that the future is in the efficient strategic management of real property assets to provide an efficient and effective workplace. The future of facilities management is in deriving added value from the synergy of good real estate practices integrated with the strategic business planning process. What is evident from the review of performance measurement surveys conducted in USA, Europe and, more recently, in Australia, is that the strong desire of facilities managers to become business strategists involved at boardroom level is still a long way off, with most organisations focused, at best, on controlling costs and implementing efficiency measures. It is also apparent that many business executives are still not receiving even the simplest of property performance information and, thus, are not able to develop meaningful asset plans. It seems from the literature that a clear divergence is occurring between the organisations that proactively manage their assets and strive for workplace efficiency and those that have still to recognise the value held in their assets and how this can significantly contribute to the bottom line of the business. The facilities management profession must, continue to strive for workplace excellence. The apparent lack of uptake of strategic asset management by a majority of corporations is leading to a significant waste of resources. The continued development and monitoring of workplace efficiency will go some way to address this wastage, however, as this paper has shown, efficiency is not the only aspect of strategic asset management that must be promoted and developed if organisations wish to archive optimum value from their property assets. There is also a need to consider the effectiveness of the workplace. A continued quest for both performance measures of property efficiency, together with the emerging need for more qualitative measures of workplace effectiveness needs to be embraced both by facilities managers and corporate business managers. In order to achieve this goal it is first necessary to establish a reliable and rigorous benchmarking system. This will require considerable additional research across a range of industry sectors and locations. The challenge faced by corporate facilities managers will be in promoting increased use of strategic asset management methodologies to achieve greater workplace efficiency while at the same time recognising the need to develop a set of softer measures of workplace utility and effectiveness to drive forward the quality of workplace provision.

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