ABSOLUTELY POSITIVELY SATISFIED: WHAT ASSET MANAGEMENT CAN LEARN FROM THE QUALITY REVOLUTION

by

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Bachelor of Arts
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ABSOLUTELY POSITIVELY SATISFIED:
WHAT ASSET MANAGEMENT CAN LEARN FROM
THE QUALITY REVOLUTION

by

ANDREW THOMAS SEGAL

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Estate Development at the Massachusetts Institute of Technology.

ABSTRACT

Three trends of the 1980’s will change the way commercial real estate
investments operate in the 1990’s: stiffening competition for tenants, a
burgeoning role for asset managers, and the growing interest by business
in quality of service. Due to the growth in absentee ownership of investment
assets, commercial real estate investments are increasingly managed by
professional asset managers. Strong competition for tenants combined with
performance driven fee structures has asset managers searching for ways
to keep and retain tenants. Well publicized success stories in other service
industries (e.g., package delivery and Federal Express, retailing and
Nordstrom) have shown that levels of quality can be improved, and asset
managers are beginning to inquire whether some of this learning is
transferable.

The thesis reviews the academic literature relating to quality, both in
manufacturing and service industries. From the review, a synthesis of ideas
is formed and an asset management analytical framework developed. Two
asset management organizations are studied and their operations tested
against the framework.

The analysis concludes that in order to improve their quality of service, asset
management organizations must take a comprehensive approach. Two
aspects are addressed: a specific quality improvement program and the
organizational structure needed to support the program. Firms must
develop the ability to learn about their customer, translate this information
into measurable service standards, and incorporate these standards into
their hiring profiles, bonus structures, subcontractor selection criteria, and
training programs. Every individual within the firm must have a commitment
to quality, and the organizational structure must be designed to support
those who are expected to deliver quality service.

Thesis Supervisor: Gloria Schuck
Title: Lecturer, Department of Urban Studies and Planning
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A work of this magnitude necessarily involves the efforts of many individuals. The inspiration came from two asset management professionals whose passion for excellence is infectious: John Diserens and Tom Gille. Their help and assistance throughout the process was integral to its success. I owe a debt of thanks (and a copy of the final product) to the dozens of individuals who shared their time and perspectives with me and helped to bring the project to life. Also critical to the work's success was Gloria Schuck, my thesis advisor. Her deft use of the red pen and ability to evaluate complex management theories presented on airline tray tables three time zones from equilibrium is truly remarkable. My greatest gratitude of all must go to my wife. Her unwavering belief in my abilities and her commitment to our joint project called "life" was sustaining. On a practical level, her grasp of the business and talent with the written word made her red pen also rather daunting...
CHAPTER 1: STATEMENT OF PURPOSE

Industry Trends

Three trends of the 1980's will have a tremendous impact on commercial real estate in the 1990's: stiffening competition for tenants, the burgeoning role played by asset managers, and, in the background, the growing interest and concern within the business community for delivering high quality customer service. As the 90's unfold, these trends are focusing attention on the ability of asset managers to lease space and retain tenants. An important feature of the product provided by asset managers to their tenants is an intangible service component. As managers struggle to maintain occupancy levels, they have begun to turn to the business community to learn some of the customer service principles that have made firms like Federal Express successful in a competitive environment. As asset managers search for ways to compete in a difficult market, some are investigating the lessons of the service sector. Drawing from the leading experts on quality, this thesis develops a quality of service framework and applies it to the asset management industry.

The greatest motivation for the interest in customer service comes from strong competition for tenants. Most sectors and markets are awash in space. In the third quarter of 1990, Coldwell Banker reported a 20.5% office vacancy index for U.S. suburban markets and 17.0% for urban markets. 1 Similarly, retail vacancy rates ranged from 6.5% in enclosed malls to 15.9% downtown 2 and the national industrial vacancy rate was 6.9%, "the highest rate Coldwell Banker has recorded for industrial space since they began

---


keeping records in 1979, when it was 2.7%." As Luis Belmonte of AMB Realty Advisors put it, "we've got a wee surplus and some testy competitive behavior."4

If competition for tenants created an interest in customer service, the trend toward absentee institutional ownership created the need for specialized asset managers who could carry it out. Between 1980 and 1989, domestic pension funds increased their real estate holdings by $1.8 trillion and foreign investors "poured billions of dollars into U.S. real estate" including $48 billion by the Japanese alone.5 As absentee owners, these capital flows led to a growing bifurcation of ownership and management and the changing role of the asset manager. As John McMahan of Mellon/McMahan Real Estate Advisors observed in 1987,

As a result of the institutionalization and internationalization of the real estate capital market, the ownership of real estate has become increasingly absentee in nature. Seldom does the local builder/investor go a few miles to supervise the operation of a property. A more likely scenario is the remote investor relying on professional portfolio and property management to protect his investment and generate desired results. In many cases, the investor never sees the property; his only contact with it is through the quarterly financial report.6

A cadre of professionals who manage the owner's investment has developed, a function typically referred to as asset management.

3 Ibid, pg 20.
6 John McMahan, "The Real Estate Capital Market: Historical Perspectives, Trends, Directions," Real Estate Issues (Fall/Winter 1987)
Highly competitive markets and absentee ownership has created tremendous performance pressure on asset managers. As investors, the pension funds and offshore owners are focused almost exclusively on financial performance that is readily quantifiable. With their fees typically tied to investment returns, asset managers are searching for ways to differentiate their product to keep their space leased. Many have instituted some form of customer service initiative.

While these changes were occurring in the real estate industry, American business became increasingly intrigued by the notion of quality. The trend began in manufacturing, most notably in the auto industry. As foreign cars increased their market share in the 1970’s, U.S. manufacturers looked for ways to improve quality and become competitive. The "quality revolution" spread into services as this sector mushroomed in the 1980’s. Books like Peters and Waterman’s *In Search of Excellence* and Albrecht and Zemke’s *Service America!* enjoyed wide popular circulation. Peter Uberoth’s management of the 1984 Olympics exemplified the drive for quality in non-manufacturing environments. The trend achieved its most recent boost when Federal Express, a service company, won the Baldrige National Quality Award in October 1990.7

The confluence of these three trends -- a competitive tenant market, the emerging role for asset managers, and the "quality revolution" -- is manifested in the industry’s current focus on tenant retention. Asset management performance is measured by how much income a property generates. A tenant who vacates when the lease expires will seriously damage a property’s performance. In addition to losing rent while a replacement tenant is found, concessions, refurbishment, and leasing commissions can easily cost the owner the equivalent of a full year’s rent. Tenant retention has therefore become paramount in the asset manager’s

mind. As the Vice President of Capital Development and Management stated, "the name of the game is tenant retention. Every time I lose a tenant I lose a year's rent."³⁸

To improve their tenant retention ratios, asset management organizations are focusing on improving their tenant relationships and boosting the quality of service they offer. Statements like: "we are in the tenant services business"³⁹ and "the tenant is king"⁴⁰ are heard frequently within the industry. Seeing themselves as a service enterprise, asset management firms are looking to the lessons of the "quality revolution". The goal of this thesis is provide bridges from the experience of other service industries to the asset management business.

**Methodology**

The goal of this thesis is to assess and evaluate the quality of service in two commercial real estate asset management organizations, and to look for lessons relative to the industry. The paper provides a comprehensive overview, analyzing many different facets of the service paradigm. While providing a broad perspective, the work is necessarily superficial in some areas. The approach the thesis takes is as follows.

Chapter Two seeks to synthesize industry's current understanding of quality and how it is achieved. Since the quality "movement" has not fully developed relative to service businesses, the discussion leans heavily on experts in manufacturing quality and seeks to apply their lessons to services. The chapter includes a brief survey of current quality of service literature.

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³⁸Vice President of Asset Management, Capital Development and Management, interview by author, 28 March 1991. Note: Company name disguised to protect proprietary interests.

³⁹Ibid.

⁴⁰Principal in charge of Asset Management, ABC Realty Advisors, interviewed by author, 28 May 1991. Note: Company name disguised to protect proprietary interests.
From these sources, an analytical framework is created that will be used to assess and evaluate the quality of service element in asset management organizations.

Chapter Three uses the framework to compare and contrast two firms engaged in asset management. The firms were chosen because they are well regarded in the industry, have a stated bias toward tenant retention, and reflect two distinct ownership arrangements. The first is a fully integrated real estate company that develops and manages property exclusively for its own account. The second firm is a pension fund advisory that purchases and manages investment property on behalf of pension funds.

The chosen firms differ in their ownership and organizational structure. The fully integrated real estate company is a publicly traded corporation owned by its shareholders, approximately two thirds of whom are major real estate investors. The advisory firm is privately held by its principals.

Organizationally, each company implements its asset management function through different means. The real estate company (for the most part) employs both property managers and asset managers on staff and chooses this structure to maintain maximum control over its assets. The advisory firm uses the same approach, but since its business also involves acquiring property, its asset managers have easy access to other real estate expertise.

By choosing firms that have different ownership and organizational structures, the research benefits from several advantages. Their diversity provides a wide perspective on the delivery of asset management services. Both must lease commercial real estate profitably, and evaluating how different firms accomplish it provides greater perspective than would three identical firms. The different organizational structures also allow the thesis to test general principals in a mix of settings, thereby enhancing the credibility of its conclusions. Finally, the choice of firms gives the research access to industry professionals from varied backgrounds who each bring different perspectives to the challenge of delivering service to their tenants.
The strategy is not without disadvantages. Since these firms have different types of owners, their business incentives may diverge, reducing the validity of specific comparisons. A sample of two firms is not sufficient to make authoritative statements about the industry. Finally, since the goal of thesis is to provide a comprehensive overview, it necessarily lacks detailed in-depth analysis of the individual issues it addresses. This task is left to future students.

Given the choice of firms and the framework developed in Chapter Two, the approach to evaluating these firms was via personal interviews. Where possible, each person who has direct responsibility for a single property was interviewed, including the head of asset management operations, middle management, and individual asset managers. With each firm, one asset manager’s property was selected, and the appropriate property manager and a sample of the property’s tenants was interviewed. Finally, to assess how each firm’s quality orientation is perceived in the marketplace, several independent brokers who have dealt with the three firms was interviewed. From the results of these meetings, a composite picture of asset management operations will emerge for each firm.

Chapter Four summarizes the findings and draws conclusions about the firms studied. To the extent these firms are representative, the findings will prove helpful and relevant to the industry at large and boost the level of understanding about quality of service in asset management firms.
CHAPTER 2: BUILDING A FRAMEWORK

Introduction
As more Toyotas and Hondas began populating U.S. roads in the late 1970's, America's interest in quality reached a critical point. Corporate determination to improve the quality of products they produce has grown over the ensuing decade, but only recently has the quality movement begun reaching the service industry.

The goal for this section is to develop a quality of service framework for evaluating asset management enterprises. The notion of quality in service businesses is relatively new in the academic literature. While many practitioners have written about quality in business such as airlines and hotels, no one writer has emerged as a consensus leader. By contrast, quality in manufacturing has several leading writers. This chapter begins by developing a definition of "services" and shows that asset management fits squarely into the service category. It continues by analyzing the ideas of three "gurus" of manufacturing quality and showing how these principles apply to services. The chapter concludes by developing a quality of service framework tailored to the asset management business.

Definition of Services verses Products
To build a framework requires understanding what is meant by "service business." The distinction between a business that sells products and one that sells services is unclear. Does McDonald's sell a product or a service? Like a manufacturing plant, they convert raw (literally) materials into finished products and sell them to consumers. Yet McDonald's also serves their

product personally, creates and maintains an environment for consuming their product, and generally views itself as a service business.

A better way to understand the product-service distinction is to view it as a continuum ranging from goods that contain a high percentage product (e.g., a chair) to a high percentage service (e.g., a haircut). Viewed along this continuum, asset management firms fall very close to the 100% service end of the range, not unlike a motel.

Several writers have explored differences along the product-service continuum. Sasser, Olsen and Wyckoff note four important characteristics of services: Intangibility, Perishability, Heterogeneity, and Simultaneity.\textsuperscript{12} Intangibility means that purchasers of pure services cannot see, smell or touch what they are buying. The expectation of a quick response to a roof leak, for instance, is an intangible benefit that a tenant is purchasing when he/she signs a lease.

Services also tend to be perishable -- "they cannot be inventoried" since once a consultant’s day goes unused, it is unbillable. For the asset manager, each day a vacant space goes unleased is a day’s rent that can never be recovered.

Heterogeneity is particularly acute in real estate services: all landlords profess to offer “good service,” as do all real estate brokers, attorneys and architects. Because these services are essentially intangible, differentiating between providers is very difficult. In contrast, purchasing a particular television may offer features (e.g., remote control) that others do not. Distinguishing between the capabilities of a service provider is far less concrete.

Perhaps most vexing is the simultaneity of the product. Production and consumption of services occur simultaneously. A television is manufactured, inspected, then sold. Responding to a tenant complaint, however, occurs

in real time -- there is no opportunity for a quality control team to correct errors in the response. The simultaneity of services places the quality control burden directly on the provider.

Lovelock dissects simultaneity further by observing that services are "less standardized and uniform [and] tend to differ on the extent to which they are 'people based' or 'equipment based.'"\(^\text{13}\) For example, one car repair shop may rely on an experienced mechanic for diagnosing a problem where another may employ sophisticated computer diagnostic equipment. Equipment based service may standardize a portion of the service product, but the product is still sold before management can inspect it.

As a service business, asset management shares these classical features. Unlike a merchant builder who manufactures and sells buildings, asset managers are selling a bundle of real estate services. These include the use of space and its related services. In an office building a tenant is buying the right to occupy the space, the installation and maintenance of partitions, carpets, ceilings, etc., janitorial service, heating and cooling, illumination, and the many other facets of an office. Along the product-service continuum, the product portion is the structure itself, but it is essentially fixed once has been built.

Intangibility, perishability, heterogeneity, and simultaneity are all characteristics of the asset management business. The product is intangible. The right to use space and enjoy related services is difficult to see touch or feel. Since the space is sold by time, it is perishable -- yesterday cannot be included in tomorrow's lease term. Since locations differ, buildings are also somewhat less heterogeneous than hair cuts, but competitors each offer relatively similar bundles of services. Like airlines and hotels, asset management produces and delivers its service simultaneously -- when a tenant has a complaint, the solution is crafted and

administered at the same time. As Table 2.1 shows, asset management is highly service oriented.

**TABLE 2.1**

**ASSET MANAGEMENT IN THE SERVICE CONTINUUM**

<table>
<thead>
<tr>
<th>CHARACTERISTIC</th>
<th>TELEVISION SETS</th>
<th>ASSET MANAGEMENT</th>
<th>HAIR CUTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTANGIBILITY</td>
<td>Seeable, touchable</td>
<td>Unseeable, not concrete</td>
<td>Intangible</td>
</tr>
<tr>
<td>PERISHABILITY</td>
<td>Durable, can be inventoried</td>
<td>Ability to lease expires daily</td>
<td>Haircutter's time expires if not sold</td>
</tr>
<tr>
<td>HETEROGENEITY</td>
<td>Differentiated by features</td>
<td>Differentiated by location</td>
<td>Virtually no differentiation</td>
</tr>
<tr>
<td>SIMULTANEITY</td>
<td>Manufacture separate from consumption; repair service includes both equip. and people</td>
<td>Apart from transaction, service occurs at point of consumption and is people based</td>
<td>Service consumed at point of production; highly people based</td>
</tr>
</tbody>
</table>

**The Experts on Quality**

Knowing that asset management is a service business, we turn to the literature to develop a framework for analysis. The relevant body of literature can be divided into three categories: service quality, company or industry specific, and manufacturing quality.

The systematic study of quality in service organizations is relatively new. As Richard Normann writes, "the idea that the management of service businesses...is in many ways unique and must apply principles which are not covered by established management know-how began to be generally
recognized in the late 1970's." Writing in 1978, Sasser and Wyckoff were among the first, and the 1980's saw several widely read pieces by Albrecht, Zemke, Peters, and Rosander. Unfortunately, no single writer presents a framework appropriate for the purpose of this thesis. Sasser and Wyckoff do not deal with quality of service directly; rather they apply competitive strategy principals learned in manufacturing firms to their service counterparts. Albrecht, Zemke, and Peters, while they do address issues of quality in service firms, lack a rigorous analytical framework that transcends the anecdotal. Rosander's *Quest for Quality in Services* presents a well-reasoned quality of service framework that extrapolates and adapts the work of the manufacturing quality experts. Written in 1989, it has yet to "stand the test of time," but many of his ideas will be included in developing a framework for analysis.

The second body of literature is industry specific. Among the more studied service industries are airlines, hotels, and food service. Many parallels exist between these businesses and commercial real estate, but there are dissimilarities as well. For purposes of this thesis, the analytical framework will draw on this material where appropriate, but industry specific literature alone cannot support the analytical framework. Case studies taken from other industries will, however, be used to give life to the framework's principals when they are applied in Chapter 3.

The foundation for this thesis rests on the gurus of quality in manufacturing. These individuals enjoy wide respect for their work over the


past twenty years and are referenced in virtually all works on quality of service. Therefore, this thesis will compare and contrast these works to develop a framework for analyzing quality of service in asset management firms.

In writing on manufacturing quality, Crosby, Deming, Feigenbaum, Ishikawa, and Juran have enjoyed clear recognition for many years.¹⁷ For purposes of developing a quality of service framework for asset management, Deming, Ishikawa, and Juran are most relevant. Feigenbaum’s¹⁸ work is highly product oriented and his theories rest heavily on statistical quality control principles. His approach does not lend itself to the highly service based asset management industry.

Crosby’s¹⁹ approach is also inappropriate for asset management firms. His view of management, employees, and training are, as Robert Cole writes, "profoundly elitist."²⁰ Crosby’s sees training as "how to talk to people who aren’t sure the [Quality Improvement] program is serious: what to say if the union steward raises a question...there are a lot of things they need to know..."²¹ In asset management organizations, where line staff frequently possess graduate degrees, Crosby’s approach would be unworkable.


¹⁹Philip Crosby, Quality is Free (New York: McGraw-Hill, 1979)


²¹Ibid., 279.
Deming, Ishikawa, and Juran each present approaches to quality that are readily adaptable to asset management. These experts are referenced in many of the current quality of service works, and several authors have attempted to adapt their theories to services (see footnote 15). Given their wide acceptance and adaptability, this thesis will compare and contrast their theories to develop a quality of service framework for analyzing asset management firms. The framework will selectively draw on the works of recent writers on service quality, but will use Deming et. al. as the basis.

Deming, Ishikawa, and Juran each present approaches to improving quality. Since no one writer presents a theory entirely applicable to asset management, the framework borrows pieces from each theory to construct a two-part composite framework. The first part of the framework defines the components of a successful quality improvement program, and the second part of the framework describes features an organization must have to implement the program. Taken as a whole, the framework provides a comprehensive tool for improving quality of service.

A Quality Improvement Program

A successful quality improvement program is comprehensive. Each component must be consistent with the others and send a clear, unconfused message to customers, employees, and management. As Deming wrote, "A random walk dissipates energy and fails to reach a goal...It will not suffice merely to solve problems that walk in day by day." Synthesizing the work of the experts on quality, a five part program was developed. The program focusses on an organization defining quality, learning how to measure quality, and incorporating the definitions and measurements into its employee programs, subcontractor relationships, and training efforts.

---

Definition of Quality

A consensus among the experts on a definition of quality would include the following elements: standards, customer requirements, an onus on management, and competitive pricing. Deming offers an expansive definition:

Quality can be defined only in terms of the agent. In the mind of the production worker, he produces quality if he can take pride in his work. Quality to the plant manager means to get the numbers out and to meet specifications. The difficulty in defining quality is to translate future needs of the user into measurable characteristics, so that a product can be designed and turned out to give satisfaction at a price that the user will pay. What quality characteristics are important to the customer? The quality of any product or service has many scales. Product put on the market today must do more than attract customers and sales: it must stand up in service.23

Ishikawa also involves the customer in his view of quality - "To practice quality control is to develop, design, produce and service a quality product which is most economical, most useful and always satisfactory to the consumer."24 Juran incorporates a functional dimension by defining quality as "fitness for use [which] is judged as seen by the user, not by the manufacturer, merchant, or repair shop."25 Rosander distinguishes quality in services by pointing out that the standard is often subjective and situation specific because "services are faced at every turn with individual human


differences; manufacturing is not. 26 For this paper's purpose, a consensus is proposed: *Quality is always meeting standards that the firm sets based on its customer's needs, at a competitive price in the marketplace.*

**Standards and Measurement**

Setting standards and developing tangible measuring criteria may be the greatest challenge to quality improvement in an asset management organization. Deming is well known for his adherence to statistical methods of quality control -- limiting variation across quality parameters. The riddle in services is to identify these parameters. Since each service business has different characteristics, Deming approaches the problem by challenging his readers to consider measurements from the customer's vantage point. To illustrate this approach in a generic sense, he posits several measures for the hotel business:

1. The proportion of rooms that are put into satisfactory order before registration of new arrivals.
2. The proportion of guests that needed a desk where none was provided.
3. The proportion of rooms without adequate light on the desk.
4. The proportion of guests that complain that the air conditioning is noisy. 27

Deming tries to quantify customer satisfaction by measuring (or assessing) how often service falls short of customer expectations.

Where Deming communicates the development of standards by way of specific example, Ishikawa is abstract in his determination of measurables.

26 Rosander, *The Quest for Quality in Services*, 47.
Firms must determine the "true quality characteristics" that their customers require.\textsuperscript{28} He cites an example of a paper manufacturer whose customer, a newspaper company, required newsprint that would not tear on the presses. "Not tearing" is the true quality characteristic. Firms must then translate these characteristics into "substitute quality characteristics" that the firm can measure. In his newsprint example, Ishikawa suggests tensile strength as a measurable. The challenge is translating true quality characteristics into measurable substitutes.

In services, the translation is particularly tricky since a true characteristic -- well maintained landscaping, for example -- may require subjective judgement. Ishikawa writes: "This task is so difficult that, in the end, the five senses (sensory test) may be used to make the determination."\textsuperscript{29} He places some of the onus on workers: "In implementing quality control, do not seek merely to fulfill national standards and company standards, but set your goals to meet the quality requirements of consumers."\textsuperscript{30}

In writing on service business, Juran suggests using data on "consumer complaints and claims" and/or "solicitation of consumer comments."\textsuperscript{31} From this data a firm learns what to measure and possibly how to measure it. Sasser, one of the writers seeking to adapt manufacturing quality theory to services, has coopted Crosby's "zero defects" manufacturing strategy and applied the idea to service in the form of "zero defections." Sasser explains that "customers who leave can provide a [valuable] view of the business" and "defection analysis" can reveal important standards for measurement.\textsuperscript{32}

\textsuperscript{28} Ishikawa, \textit{What is Total Quality Control?}, 46-49.

\textsuperscript{29} Ishikawa, \textit{What is Total Quality Control?}, 48.

\textsuperscript{30} Ibid., 55.


\textsuperscript{32} Frederick Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services", \textit{Harvard Business Review} 68 no. 5 (September-October 1990), 106.
To interview tenants who choose not to renew their leases would be easy since not many leases expire in a given month.

Rosander, another service writer, is troubled by the abstract approaches inherent to service quality measurement and tries to address the problem. He writes, "Quality characteristics encountered in services are of three kinds: measurable, observable effects and conditions, and observable behavior traits and attitudes."³³ Among the first type, measurables, he suggests identifying customer satisfaction criteria that can be quantified. He cites three areas that weigh heavily in creating customer satisfaction where simple measurement is possible:

1. Time: delay, waiting, service, idle, downtime, access, lead, wasted, excessive, shipping, delivery, repair, unnecessary.
2. Errors: number, rate, trend, distribution, cost, learning curve based on errors.
3. Reliability of Equipment: number of failures.³⁴

In quantifying these characteristics, he attempts to eliminate the nagging subjectivity that clouds the quality issue.

In the same sense Rosander also suggests looking at observable effects. Observable effects are binary measures of good and bad service. For example:

1. Trouble eliminated or not.
2. Room satisfactory or not.
3. Device, equipment, or apparatus worked or it did not.³⁵

³³Rosander, The Quest for Quality in Services, 139.
³⁴Ibid., 140.
³⁵Ibid.
Rosander's observable effects borrows the concept of the failure rate from manufacturing. By quantifying the successes and failures over time, managers can target specific parts of a service enterprise to improve overall quality.

Rosander's measurables and observable effects are relatively tangible, but much of the "service experience" is not. Rosander addresses the subjective aspect of services by identifying specific behavior traits that are important to the successful delivery of services. He groups behavior traits as either contributing to quality, or detracting from it. A Gallup survey claims that, "customers have no difficulty in identifying these non-quality characteristics in persons who are performing services".36

<table>
<thead>
<tr>
<th>CONTRIBUTING CHARACTERISTICS</th>
<th>DETRACTING CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>courteous</td>
<td>discourteous</td>
</tr>
<tr>
<td>helpful</td>
<td>indifferent</td>
</tr>
<tr>
<td>polite, mannerly</td>
<td>careless</td>
</tr>
<tr>
<td>kind</td>
<td>rude, curt</td>
</tr>
<tr>
<td>sympathetic</td>
<td>critical, antagonistic</td>
</tr>
<tr>
<td>considerate</td>
<td>abrasive, arbitrary</td>
</tr>
<tr>
<td>prompt</td>
<td>slow, procrastinating</td>
</tr>
<tr>
<td>cooperative</td>
<td>self-centered</td>
</tr>
<tr>
<td>accurate</td>
<td>inaccurate</td>
</tr>
<tr>
<td>honest</td>
<td>dishonest</td>
</tr>
<tr>
<td>encouraging</td>
<td>deceiving</td>
</tr>
<tr>
<td>reliable</td>
<td>unreliable</td>
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<tr>
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<td>ignoring</td>
</tr>
<tr>
<td>understanding</td>
<td>indifferent</td>
</tr>
<tr>
<td>interested, concerned</td>
<td>unfair</td>
</tr>
<tr>
<td>competent, qualified</td>
<td>incompetent</td>
</tr>
</tbody>
</table>

These traits in particular are readily identifiable qualities that Rosander recommends tracking in service personnel. He is careful to point out the

36Ibid., 141.
importance of careful data collection and offers advice on how to avoid errors. In adding the ideas of service measurables, observable effects, and behavior traits to the discussion of standards and measures, Rosander builds on the ideas of Deming et. al. and provides new insight into service quality.

The literature is in virtual agreement as to the challenge in measuring quality in services. The manufacturing writers are comfortable with measuring the tangible characteristics of a product; when pressed on services, they believe measurables exist and exhort managers to identify them. In contrast, Rosander develops the three part framework (measurables, observable effects, and behavior traits) for measuring quality of service that is specific and applicable to asset management while harmonizing with the manufacturing quality writers. His material deals logically with this complex challenge.

While the experts disagree on how to measure service quality, there is agreement on some general guidelines. In conjunction with a definition of quality (see page 18), the measurements must be customer-based. Once a firm identifies its customer needs, it can translate these needs into explicit standards based on a unit of measure. For example, McDonald’s customers want "fresh" hamburgers (need); McDonald’s defines "fresh" based on holding time (standard), and calculates the standard in minutes (measure). Therefore the framework asks what a firm measures, how the measures relate to standards and customer needs, and what else the firm should measure given its definition of quality.

The Role of the Employee

Given a clear set of quality standards based on explicit measurables, the program must incorporate front line employees. Juran has developed an elaborate theory of employee "self-control". The theory holds that a worker must be provided with:
1. Means for knowing what he is supposed to do
2. Means for knowing what he is doing
3. Means for regulating what he is doing

If all of the foregoing criteria have been met, the operator is in a state of self-control and can properly be held accountable for results...When all the criteria for operator self-control have been met, the resulting defects are said to be operator-controllable. If any of the criteria have not been met, the defects are said to be management-controllable.37

Ishikawa would question whether Juran's logical framework allows for employees to actually contribute to quality improvement. He writes:

If people are treated like machines, work becomes uninteresting and unsatisfying. Under such conditions, it is not possible to expect products with good quality and high reliability. The rate of absenteeism and the rate of turnover are the measures one can use in determining the strengths and weaknesses of management style and worker morale in any company.38

Deming is in accord with Ishikawa and focuses on organizational reforms that remove the machine-like structure Ishikawa dislikes. Deming urges firms to "remove barriers that rob people of pride of workmanship...people, whether in management or on the factory floor, have become, to management, a commodity" and only when structural changes are made can their essential pride in what they do be actualized.

Writers on service quality emphasize the role of the employee to a greater extent. Responding to Demings's "barriers to pride of workmanship," Rosander writes:

37 Juran, Quality Control Handbook, 11-5.

38 Ishikawa, What is Total Quality Control?, 25.
It does not apply literally to those who work in service companies or agencies. The equivalent in these organizations is one or more of the following: Satisfaction from doing a good job; Satisfaction from doing something that pleases a customer; Pleasure from solving a tough problem; or Resolving a problem that is bothering a customer.39

He stipulates that employees need to know how to do the job, have desireable attitudes, and understand what constitutes acceptable quality. As he summarizes, “The [employee] who renders the service is responsible for its quality” 40

Given the central importance of the employee in services, the framework will explore how these individuals are chosen, incented, and evaluated. Hiring criteria and bonus criteria will be obtained from each firm. The data will be assessed to see how firm’s shape their “front lines” relative to their espoused definitions of service quality.

The Role of The Subcontractor

How a firm chooses and relates with its subcontractors and vendors is critical to the quality of its products. This is especially true of asset management firms. Depending on their strategies, asset management firms will contract with property managers, janitorial services, window cleaners, building tradesmen, and many others.

The experts differ on the degree of involvement a firm should have with its vendors. At one extreme is Deming who characterizes the vendor relationship in terms of selection: “End the practice of awarding business on price tag alone.”41 Among the characteristics Deming would seek is a supplier who "can furnish evidence of active involvement of management

39 Rosander, The Quest for Quality in Services, 277.
40 Ibid., 18.
41 Deming, Quality, Productivity, and Competitive Position, 23.
with [Deming’s own quality improvement program], and evidence of sustained use of [statistical tools], and who will cooperate with us on tests and use of instruments and gauges."\textsuperscript{42} Crosby recommends somewhat greater involvement, urging that the quality control staff of the supplier’s firm be involved in the purchasing process.\textsuperscript{43} Testing company boundaries, Juran suggests greater balance in vendor selection criteria to include “financial stability, prices, ability to meet delivery promises...and other parameters affecting the overall relationship.” Specifically, Juran recommends “a vendor relations quality policy...[and that firms] conduct joint quality planning, conduct vendor surveillance.”\textsuperscript{44} Ishikawa takes Juran’s approach a step further in explaining how “nurturing a supplier” will improve quality. He includes specific tactics including close relations, frequent quality audits and “a system of giving awards to each of the suppliers for implementing quality control.”\textsuperscript{45} These manufacturing experts agree on the importance of quality suppliers, but vary in their tactics for achieving it.

From a service standpoint, suppliers are typically subcontractors hired to deliver a portion of the service package. Rosander presents the extreme view that “there is no evidence that contracting out is better than qualified in-house capability.”\textsuperscript{46} Given that economics dictate subcontracting in some cases, Rosander stipulates that quality should be explicitly part of the vendor contract. The criteria by which asset management firms select subcontractors is extremely important to the service delivered to tenants. The framework will include Rosander’s idea of specifying quality levels in

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{42} Ibid., 27.
\item \textsuperscript{43} Crosby, \textit{Quality is Free}, 74.
\item \textsuperscript{44} Juran, \textit{Quality Control Handbook}, 10-2.
\item \textsuperscript{45} Ishikawa, \textit{What is Total Quality Control?}, 161-164.
\item \textsuperscript{46} Rosander, \textit{The Quest for Quality}, 287.
\end{enumerate}
\end{footnotesize}
contracts and will generally probe for the criteria used by firms in selecting their subcontractors.

**Training**

Everyone is in favor of more training; to what end, however, is a topic of controversy. The manufacturing writers suggest a clear distinction between training and education. Training means teaching workers how to do their jobs correctly. Education abstracts from the daily job functions and places the work in its broader theoretical context. To illustrate, asset managers are trained to prepare an operating budget; they are educated to understand how the budget relates to the value of their asset. The training - education distinction is important to a sophisticated service business like asset management, and the experts differ in their views on the role of each in an organization.

Deming’s recommendation, "Institute training on the job", is hard to argue with, but his assumptions about training are reminiscent of Taylor’s scientific management theories and are better suited to an assembly line:

> It is obviously of the utmost importance to train new people, when they come on to a job, to do the job well. Once the learning curve levels off, a control chart will indicate whether and when a person has reached the state of statistical control. When he reaches it, continuation of training by the same method will accomplish nothing. Curiously, if a man’s work has not yet reached statistical control, further training will help him.\(^{47}\)

Applying his philosophy to services, Deming writes “ability to please the customer should be, for good management, top priority for hiring and training of employees...The woman that runs the elevator in a department store in Japan receives training over a period of two months on how to

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\(^{47}\) Deming, *Out of the Crisis*, 249.
direct people, how to answer questions, and how to handle them in a crowded elevator." Deming also recognizes the less tangible advantages of education as distinct from training. In his Thirteenth Point, Deming writes "Encourage education and self-improvement for everyone" because "people require in their careers, more than money, ever-broadening opportunities to add something to society, materially and otherwise." Thus by providing proper training and encouraging self-improvement through education, Deming believes employees will be both competent and motivated to produce quality.

Juran takes the more pragmatic view that "training is a shortcut alternative to learning from experience or from accumulated mistakes...The basic purpose of training is to create or update skills." Ishikawa sees the issue in broader terms, insisting that

raising people's abilities through education and training as a means of promoting total quality control...I insist on both education and training. If we are to emphasize only one, then problems can arise. Training is often understood in the West to mean technical training. Technical training alone is not adequate for our purpose.

The manufacturing experts disagree on the wisdom of education verses training. Deming, and Juran lean toward training alone while Ishikawa sees value in educating workers. Asset management is a complex business that requires its managers both to make business judgments and to handle routine tasks. Negotiating a lease is an example of the former; executing it

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48 Ibid., 192-193.

49 Ibid., 86.


51 Ishikawa, What is Total Quality Control?, 141.
and inputting it into a database is an example of the latter. Ishikawa's balance between training and education is consistent with this type of business. Judgement derives more from experience and education than from training, while executing basic business procedures properly results from good training.

Rosander comments further on education. He writes, "officials, professionals, and supervisors are not hired because they know how to teach, instruct, train or educate. Yet we count on these persons to plan, direct, and implement effective education and training" programs. Training in service organizations encompasses both formal learning of material and learning from the experiences of supervisors and colleagues.

The framework will include an evaluation of how asset management firms teach. This will include questions about both formal and informal training. In terms of formal programs, questions will be asked about company sponsored seminars and the firm's policy on reimbursing educational expenses. Informal training will be evaluated by inquiring about how ideas are shared within the firm. The responses to both sets of questions will reveal how committed the organization is to developing its employees.

Organizational Structure

A well-conceived quality improvement program will fail if an organization is not fundamentally structured to deliver quality. As Rosander notes, "Quality is a new and revolutionary idea...It calls for new ways of thinking, applying new techniques, running a business a different way." The discussion of organizational structure addresses three facets: the role of the customer, the role of management, and the development of a quality ethic as a cornerstone of the corporate culture.

The Role of The Customer

Each writer recognizes the customer as the final judge of quality. Ishikawa’s quality control ideas are customer centered. As he states, “quality control is done for the purpose of realizing the quality which conforms to consumer’s requirements.” He makes the distinction between “true quality characteristics,” newsprint that does not tear on the presses, for example, and “substitute quality characteristics” such as the newsprint’s tensile strength, a measurable proxy for its likelihood of tearing on the press. The distinction lies in seeing quality through the customer’s eyes. As Robert Cole wrote, “Kaoru Ishikawa places primary importance on the role of the customer; it dominates almost every facet of his discussion.”

Like Ishikawa, Juran sees the customer as the setter of standards and focuses on how to convert these standards into a firm’s product. As he stated:

Customer needs, expressed in customer’s language, are often unclear to us because of vague terminology and multiple dialects. To assure effective communication, customer needs must be translated into our language.

In asset management, for example, a tenant may want the ability to expand their office in the future, but may not voice this as a desire for a right of first refusal on the contiguous suite. Once translated, customer needs are incorporated into the final service product design.

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53 Ishikawa, What is Total Quality Control?, 46.

54 Ibid., 47.


Deming believes that "the consumer is the most important part of the production line. Quality should be aimed at the needs of the consumer, present and future." Deming continues,

It will not suffice to have customers that are merely satisfied. An unhappy customer will switch. Unfortunately, a satisfied customer may also switch, on the theory that he could not lose much and might gain. Profit in business comes from repeat customers, customers that boast about your product and service, and that bring friends with them.

Deming's customer focus has particular relevance to asset management where space is considered something of a commodity and tenant retention (i.e., repeat business) is crucial to profitability.

Craig Cina, Director of Market Planning for a freight firm, takes Deming's cue that "merely satisfied" is not the correct target and draws the distinction between "minimum service requirements and value-added services." Minimum service requirements are "what the customer expects or demands." Services "that augment and add extra value to the minimum requirements" are value-added services. Federal Express's ability to instantly track parcels is an example of a value-added service. By providing value-added services a firm is able to differentiate itself from the competition.

Because services are largely intangible, customer satisfaction becomes the product. As Jan Carlzon, president of Scandinavian Airlines wrote, the airline "is created in the minds of our customers" from their experiences with SAS staff. Since customer satisfaction weighs heavily, the analytical

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57 Deming, Out of Crisis, 5.
58 Ibid., 141.
60 Carlzon, "Moments of Truth", 41.
framework will question how the customer’s needs are learned, translated, and incorporated into the service product.

The Role of Management

The experts hold very different views on the role of management. By definition, management is responsible for directing the firm, but views differ on management’s role in developing quality. Deming places the quality burden at the top. He states that implementing steps to improve quality “are obviously the responsibilities of top management. No one else can carry them out. Quality is everybody’s job, but quality must be led by management.”61 Deming contemplates a well-planned quality improvement program (utilizing his 14 points) that is implemented from the top down.

Juran sees the process as organizationally interactive and draws a parallel with the traditional financial budgeting process where department heads and executive management negotiate financial targets. He sees development of “Companywide Quality Management” that is a “systematic approach for setting and meeting quality goals throughout the company.”62 As such, it involves participation from all levels, but, like the annual budget, final responsibility and leadership must come from senior management.

Ishikawa views management very differently: “When the management decides on company-wide quality control, it must standardize all processes and procedures and then boldly delegate authority to subordinates. The fundamental principle of successful management is to allow subordinates to make full use of their ability.”63

The framework will draw on each of the experts. Management must provide the leadership, systems, and authority to allow front line staff to deliver quality service. Given the high level of training asset managers

61 Deming, Quality, Productivity, and Competitive Position, 16.

62 Juran, Juran on Planning for Quality, 244.

63 Ishikawa, What is Total Quality Control?, 25.
typically posses, special attention is paid to the authority they are granted that allows them to apply their skills.

**Inculcating Quality into the Organization**

Cultivating quality throughout the organization is critical. Since services are produced and consumed simultaneously, the front line service provider is the firm's major determinant of quality in the eyes of the customer. Therefore, how well a firm inculcates quality into its organization will have direct bearing on the success of its service product. The experts differ on the best approach.

Deming proposes incorporating quality into the corporate culture. He urges companies to create a "constancy of purpose" and to "adopt a new religion" of quality. Although not explicit, Deming advocates a top down approach where the new "religion" is imparted with "modern methods of training" and "modern methods of supervision." 64 Ishikawa advocates a holistic approach where "everyone in every division in the company must study, practice, and participate in quality control" 65 Juran is less process oriented, preferring that "the key managers must participate in the formulation of quality policies" that are later published as a "written quality policy." Juran stresses that "key managers have the opportunity for participation but without the burden of performing the detailed staff work." 66 Each expert recognizes the importance of some kind of universal "buy-in," but employee involvement ranges from Ishikawa's 100% to Juran's corporate policy approach.

Recent applications of quality theory to services tend to be consistent with Ishikawa's approach to spreading the word. Rosander suggests that "a logical place to start applying quality concepts and quality control is at the

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64 Ibid., 31-32.

65 Ishikawa, What is Total Quality Control?, 91.

working level, where problems are faced constantly, or places where customer contacts occur." While he was president of Scandinavian Airlines, Carlzon wrote a popular book called *Moments of Truth* about quality of service. Knowing that the firm was "created in the minds of our customers" when they come in contact with airline employees, Carlzon defined these contacts as "moments of truth," and sought to develop his organization around supporting these interactions. Describing how he inculcated quality firm-wide, he writes: "at first, so that the effects of our changes would be immediate, we simply circumvented middle managers and went directly to the front line...the front line had the power to make individual decisions."

Carlzon and Rosander recognize that service firms rely heavily on employees who are organizationally furthest from the top. Inculcating the quality orientation, Deming's "new philosophy" turns on whether the message reaches the customer contact points. In approaching asset management firms, a key measure will be whether the customer contacts "have the message."

**Summary: An Analytic Framework for Asset Management**

The foregoing analysis forms the basis of a two-part analytical framework for evaluating asset management enterprises and their service quality. Table 2.2 summarizes the expert's positions and the thesis's conclusions about each part of a proposed quality improvement program. A successful

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69 Jan Carlzon, "Moments of Truth", *Industry Week* 234, n. 1, 41.

70 Ibid.

71 Ibid.
TABLE 2.2
SUMMARY OF QUALITY IMPROVEMENT FRAMEWORK

<table>
<thead>
<tr>
<th>FEATURES</th>
<th>DEMING</th>
<th>ISHIKAWA</th>
<th>JURAN</th>
<th>ANALYTIC FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>&quot;What quality characteristics are important to customers?&quot;</td>
<td>Economical, Useful, and always satisfactory to customer</td>
<td>Fitness for use as defined by the customer</td>
<td>Translate customer needs into standards at a competitive price.</td>
</tr>
<tr>
<td>Measurement</td>
<td>Consider what's important from customer's perspective</td>
<td>Create measurable proxies for quality characteristics</td>
<td>Solicit customer comments</td>
<td>Create measures that closely gauge the &quot;true quality characteristics&quot;</td>
</tr>
<tr>
<td>Employee</td>
<td>Allow &quot;pride of workmanship&quot;</td>
<td>Contribute to quality</td>
<td>Give employees the means for producing quality</td>
<td>Integrate hiring criteria and incentives with standards</td>
</tr>
<tr>
<td>Subcontractor</td>
<td>Choose on basis of quality</td>
<td>&quot;nurturing&quot; the supplier</td>
<td>&quot;joint quality planning&quot;</td>
<td>Make quality part of contract; nurturing</td>
</tr>
<tr>
<td>Training</td>
<td>Provide training and encourage self improvement through education</td>
<td>Both education and training</td>
<td>Training to improve job skills</td>
<td>Provide education and formal/informal training</td>
</tr>
</tbody>
</table>

A quality improvement program begins with a clear definition of quality, based on explicit standards. The standards must be converted to measurables that allow a firm to track their improvement. The standards and measurables allow the firm to develop hiring and incentive criteria for its employees; provide the basis for a quality partnership with its subcontractors; and form the basis for the firm’s training effort.
The quality improvement program must be applied to an organization that is prepared to deliver quality. Table 2.3 summarizes the expert's views and synthesis on organizational issues. An effective customer service organization must possess several characteristics. It must adopt a culture of quality where every employee "has the message." The firm must gain an ability to see the business "through the customer's eyes" and use this vision in developing its standards. Front line staff must be well chosen and incented, and given the proper leadership, systems, and resources to deliver customer service. The firm must develop subcontractor relationships that are predicated on quality. Finally, the firm must possess the ability to teach quality to its employees.

### TABLE 2.3
AN ORGANIZATIONAL FRAMEWORK TO DELIVER QUALITY

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>DEMING</th>
<th>ISHIKAWA</th>
<th>JURAN</th>
<th>ANALYTIC FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inculcation</td>
<td>&quot;Adopt a new religion&quot;</td>
<td>Companywide participation</td>
<td>Develop a written &quot;Quality Policy&quot;</td>
<td>Companywide participation emphasizing line</td>
</tr>
<tr>
<td>Customer</td>
<td>Central; repeat business is goal</td>
<td>Central; sets true quality character</td>
<td>Sets standards of quality</td>
<td>Develop ability to see the business through the customer's eyes</td>
</tr>
<tr>
<td>Management</td>
<td>Must lead the quality program</td>
<td>allow workers to make full use of their abilities</td>
<td>Must set up the quality program</td>
<td>Provide leadership, systems and resources to front line</td>
</tr>
</tbody>
</table>


These organizational qualities, combined with careful implementation of the quality improvement program features, will provide a sound, thorough basis for boosting the quality of tenant service.
CHAPTER 3: THE THEORY IN PRACTICE

Introduction

For those involved in institutional real estate investment, the early 1990's will be a time of upheaval. In the development business, "nearly every major development firm is reallocating its resources away from planning and building more properties toward the management of existing ones." Pension fund investors are reevaluating their real estate allocations, with a resulting increase in competition among advisory firms for fewer investment dollars. With these trends cast against a backdrop of soft tenant markets, managers of investment real estate are working overtime to keep their existing tenants and maintain their profitability. Two firms fitting this description were chosen as research subjects for this thesis. In addition, background interviews were held with several other firms to cross-check basic industry practice.

The goal for this section is to describe these asset management organizations using the analytical framework developed in Chapter 2. The chapter starts with a description of each firm and its organizational structure. Eight sections follow, each dealing with an aspect of the framework. The sections are broken down into two parts; the first part is a case study from another industry that illustrates how the abstract framework applies to real business situations, and the second part uses the framework to compare and contrast each firm. The chapter concludes by summarizing the findings.

Description of Firms and Properties Studied

Two firms were chosen for research: a full-service real estate development and investment firm, and a pension fund advisory firm. To protect the identity of these companies, the full-service real estate firm will

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be called "Capital Development and Management" and the advisory firm will be referred to as "ABC Realty Advisors." An operating property from each firm’s portfolio was selected for analysis. A brief description the firms and their selected properties follows.

Description of Capital Development and Management

Capital is a publicly traded developer and manager of investment property. With approximately 14 million square feet owned in 12 states, the company maintains a sizable asset management department. The firm generates book earnings by adding value through the development process and through returns earned on its investment property portfolio, but its primary source of cash is the operating income generated by existing properties.

Capital recently signaled its intention to improve the management of its existing assets by hiring a new Vice President of Asset Management. This individual has reorganized the department and undertaken an effort to improve the quality of service to its tenants.

For research purposes, "Gateway Towers", a 425,000 square foot office and retail project was selected. Due to its size, the management structure for the property is atypical for the firm in that it maintains an on-site property management office. The daily management responsibilities are handled by a property coordinator employed by the firm -- property management is not subcontracted. This individual is supported by an on-staff maintenance technician (also atypical), but subcontracts other services such as janitorial, landscape maintenance, parking lot maintenance, etc. The property manager reports to an asset manager who is responsible for the financial performance of a portfolio of properties that includes the subject project. The asset manger in turn reports to the Regional Director who oversees the management of approximately 3 million square feet. The Regional Director reports to the Vice President of Asset Management. The reporting
relationships are shown in Figure 3.1. Individuals who were interviewed are indicated by two asterisks.

Figure 3.1: Capital Development and Management Organization Chart

Description of ABC Realty Advisors

ABC is a medium sized (approximately $850 million under management) pension fund advisor that purchases and/or develops and manages investment property on behalf of pension fund and institutional clients. The firm is owned privately by its principals. Profits come from fees earned on acquisitions and from asset management fees, typically a percentage of the asset value under management.

With the recent promotion of the head of asset management to the position of Principal, ABC is also stressing its commitment to providing quality customer service. This individual manages the asset management function for the firm and has supervisory responsibility over the asset managers. In conjunction with the head of the firm's development operation,
the Principal in charge of asset management is spearheading the service quality improvement initiative.

The firm has a specialty in anchored community and neighborhood retail centers, so the property chosen for analysis was "Meadow Commons", a 130,000 square foot neighborhood retail strip center. Anchored by a grocery store, the center contains approximately 40 tenants and is located in a suburban community. The daily operations are managed by a third party management firm who coordinates the activities of subcontractors who handle maintenance activities. The property manager is hired and supervised by ABC’s asset manager assigned to the Meadow commons. The asset manager is responsible for the financial performance of the property, including the execution of leases, maintenance contracts, retail promotions, and any other issue that affects the property’s bottom line. The asset manager reports to the Principal in charge of asset management. In addition, as the firm acquires properties such as this center, one of the firm’s principals is assigned to the property as an additional resource. The reporting relationships are shown in Figure 3.2. Individual who were interviewed are indicated by two asterisks.

Evaluation of Quality Improvement Programs

Each of the surveyed firms has expressed a strong interest in improving the quality of service it provides to tenants. To this end, both are continuing to develop initiatives that can be viewed as pieces of a quality improvement program. This part of the thesis compares the quality improvement steps taken by the firms against the framework developed in Chapter 2.

Defining Quality of Service

In selling their bundles of real estate services, each firm has developed an explicit or implicit working definition of what constitutes a quality product. The consensus approach developed in Chapter 2 defined quality as "always meeting standards that the firm sets based on its customer’s needs, at a
price competitive in the marketplace." The firms selected for analysis both adhere to this approach to quality, but each in their own ways. This section will use a case study to illustrate a good understanding of quality, describe how the surveyed firms define quality, and analyze their definitions against the framework developed in Chapter 2.

**Case Study: Defining Quality**

The importance of properly defining quality by connecting customer needs to service features is illustrated by the BBBK, a Miami-based pest exterminator. The firm provides commercial pest control services to hotel

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and restaurant clients. As one competitor noted, BBBK is "Number one, and there is no number two."  

BBBK's success stems from incorporating a clear understanding of customer needs into the service product it sells. BBBK translates these needs into a Service Guarantee, which states:

Your don’t owe one penny until all pests on your premises have been eradicated.
If a guest spots a pest on your premises, BBBK will pay for the guest’s meal or room, send a letter of apology, and pay for a future meal or stay.
If your facility is closed down due to the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profits, plus $5,000.

The guarantee codifies customer needs. Its customers want proven results before paying, need to satisfy their own guests, and face very high costs with regulators should their pest control program not meet government standards. Expressed as a guarantee, the firm’s grip on their customer’s needs is a strong marketing tool that allows the firm to charge substantially higher fees.

**How Surveyed Firms Define Quality**

Chapter 2 determined that a good definition of quality should include standards, customer needs, and price. Both firms made a commitment to quality in their mission statements and have spoken frequently of their interest in providing good customer service. Their espoused definitions of quality are generally consistent with the framework but do present several opportunities for improvement.
In its "Asset Management Philosophy" statement, Capital explicitly defines quality as providing tenants with "safe, comfortable and attractive space for their work, home, shopping and recreation...to provide quality space that meets their needs at the best possible price." Managers embellish the company's philosophy with personal "working definitions." Noted the Vice President of Asset Management, "its an attitude...how would you treat the tenant if it were your mother?" An asset manager added: "in this office we always try to give the tenants something more than they expect," while showing "absolute respect to any tenant employee" no matter what their title.

Capital's tenants expressed needs that are generally compatible with the firm's view. When asked to identify their needs as tenants, they responded:

"I want to be in a building that presents itself well...where you work is important...clean bathrooms are important...the maintenance standards are higher [than previous locations] here."  

"[I want] urgency in response...the management is very responsive."  

"[In lease negotiations] "I want fair dealing with respect and honesty and negotiators [who are] responsive. I get heat from my manager -- we want to keep rents down. Now we [the asset manager and tenant] become potential foes..."

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77 VicePresident of Asset Management, Capital Development and Management, interviewed by author, 28 March 1991.


79 Office Manager of a tenant leasing space from Capital Development and Management, interview by author, 28 June 1991.

80 Ibid.

81 Ibid.
"I feel helpless with these expense bills... We're [the tenants] paying for it." 82

"They know we have odd working hours and [accommodate] our HVAC needs." 83

"It is important for our start-up firm to present a professional image." 84

"The service is way beyond the call of duty." 85

Several patterns run through these statements. The firm's customers view their needs in terms of building appearance, fast, flexible service when issues arise, and predictable operating expenses that represent good value.

ABC also codifies its definition of quality in a written statement. It states: "The key challenge in the 1990's is asset management. Successful real estate firms will be those that operate successful businesses (i.e., each property) and think customer, customer, customer." 86 The statement defines quality as providing a structure that "serves our customer's needs to transact their business successfully." 87 It also states the firm's conviction that quality service is based on good communication -- as the document states, "know your tenants." 88 To this end, asset managers are encouraged to spend time at their projects (often over 1,000 miles away), develop

82 President of a tenant leasing space from Capital Development and Management, interview by author, 28 June 1991.


84 Ibid.

85 Ibid.

86 ABC Realty Advisors, "Standards and Responsibilities of the Asset Manager" obtained by author from the company, 27 March 1991.

87 Ibid.

88 Ibid.
relationships with their tenants, and encourage third party property managers to provide top service. As the principal in charge of asset management emphatically stated, a property manager "would lose his head if he neglects his tenants." 89

ABC's tenants identified several needs. A restaurant operator expressed two needs: an attractive, visible location, and quick repair of broken items. Other tenants stated:

"[I want] good communication" 90
"[I want] "input my CAM [common area maintenance] fees are too high; do we really need this level of service?" 91
"I want a landlord who is a good listener, responsive, available, knowledgeable, and who seeks my input into building decisions." 92
I want "feedback on our center promotions" 93
"Appearance is important to my business [and the] current owners show care -- putting money into the center for the long term." 94

90 Merchant who leases space from ABC Realty Advisors, interview by author, 02 July 1991.
91 Merchant who leases space from ABC Realty Advisors, interview by author, 02 July 1991.
92 Merchant who leases space from ABC Realty Advisors, interview by author, 02 July 1991.
93 Restaurant Manager who leases space from ABC Realty Advisors, interview by author, 02 July 1991.
94 Restaurant Manager who leases space from ABC Realty Advisors, interview by author, 02 July 1991.
"They have followed through on their commitments and that's important."\(^{95}\)

"[I want a landlord who] listens, cares, and is attentive and who is easy to get a hold of...[the current property manager] is easy to get a hold of."\(^{96}\)

These comments share some common themes; ABC’s tenants are concerned with the center’s image, promotion, maintenance, landlord relationships, and CAM charges.

Chapter 2’s findings target two areas for close analysis: gaps between customer needs and quality standards, and the price/value relationship as perceived by the tenant. Standards must directly relate to customer needs. For example, the restaurant operator needs a clean, well maintained appearance and a visible building. ABC states a commitment to serve their customer needs to “transact their business successfully.”\(^{97}\) Rather than simply repainting the building, the asset manager chose a new, more visible color, and the operator credits the improvement with a growth in sales.\(^{98}\) Although ABC’s definition is all-encompassing, the strong connection between customer need and company action created a positive impression on the tenant.

A second illustration of the gap between the standards and customer needs relates to responsiveness. Both mission statements allude to quick

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\(^{95}\) Restaurant Manager who leases space from ABC Realty Advisors, interview by author, 02 July 1991.

\(^{96}\) Restaurant Manager who leases space from ABC Realty Advisors, interview by author, 02 July 1991.

\(^{97}\) ABC Realty Advisors, "Standards and Responsibilities of the Asset Manager," obtained from the company by the author, March 1991.

\(^{98}\) Store Manager of a tenant leasing space from ABC, interviewed by author, 02 July 1991.
response times -- "...we are in the tenant services business"\textsuperscript{99} and "The existing tenant is an existing customer...Know him and serve him"\textsuperscript{100} -- but stop short of setting specific standards (like BBBK does) that reflect a thorough understanding of what tenants mean by "responsiveness." Given the unanimity of customer opinion, firms could improve their quality of service by developing a clear, measurable definition of "responsive" and setting appropriate standards.

Another element of the definition is price. Every tenant expressed concern over price, both in terms of the fixed monthly rent they pay and the CAM costs (Common Area Maintenance, e.g., landscape maintenance) they reimburse to the landlord. Yet apart from mission statements, once a lease was signed, asset managers generally did not view price as part of their quality of service responsibility. To effectively incorporate price into a quality of service paradigm requires managers to understand the source of tenant concern.

Two perceptions of price are important to tenants: maximum value and honesty. Tenants (like any consumer) want value for their rent and CAM dollar; they want to be assured that money is not being wasted. By discovering untapped operating efficiencies, asset managers can add value by delivering the same service for less. For example, by installing low-energy light bulbs, tenant costs are reduced while service is (if done correctly) unaffected. ABC is starting such a program, but the tenants interviewed were not aware of it. In the minds of their tenants, neither Capital or ABC address this issue directly.

Tenants also feel uncertainty about common area charges. One broker advises his clients to "watch for owners who are making money in


\textsuperscript{100} ABC Realty Advisors, "Standards and Responsibilities of the Asset Manager," obtained from the company by the author, March 1991.
unreasonable ways" such as padding operating costs.\textsuperscript{101} No tenants of Capital or ABC intimated dishonesty, but they did express uncertainty. Given the overall sensitivity expressed by tenants over their common area charges, landlords could improve the perceived quality of their service by making certain that tenants fully understand the charges. Thus by focussing on value delivered for the price, and creating solid connections between standards and customer needs, asset management organizations can improve the quality of service they provide.

Defining quality is at the heart of any quality improvement program. BBBK successfully defined its customer's needs and created a product with features that met those needs. Capital and ABC have each developed formal and working definitions of quality. Relative to the framework, these definitions are a good start that could be improved by developing a more rigorous connection between needs and standards and incorporating a price consideration.

\textbf{Measuring Quality of Service}

As became evident in the framework, measuring the quality of service a firm delivers is both crucial and difficult. To improve quality of service, it must explicitly measured and tracked. These measures are difficult owing to the intangible nature of service.

All firms evaluate their performance based on variation from the project's annual financial plan. The firms also measure on-time rent collections and occupancy rates. Apart from financial performance, each has tried to develop some means of measuring how well they are doing in meeting their quality of service definition. This section will use a case study to illustrate good measurement, show how the surveyed firms measure their service performance, and analyze their measurements to suggest improvements.

\textsuperscript{101} Tony Lautmann, The Staubach Company (and formerly of Coldwell Banker Commercial), interviewed by author, 28 June 1991.
Case Study: Measuring Quality at Federal Express

One of the premier service success stories is Federal Express, and their success is based on careful measurement. As the only service business to win the Baldrige National Quality Award, the company's philosophy is reiterated by John West, manager for quality improvement: "We won't be happy until we have 100% customer satisfaction and on-time delivery."\(^{102}\)

Federal Express's performance rests on the company's "Service Quality Indicator (SQI), a list of critical points that determine success or failure on a daily basis."\(^{103}\) These measurements include:

Late delivery: Be it after the appointed hour, or, even worse, after the appointed day.

Proof of delivery: If the customer's signature is not on the paperwork that comes back to the Federal Express office, the delivery is considered a failure by SQI standards.

Request for adjustment: If a customer requests an adjustment on a billing, the delivery is considered a failure by SQI standards.

Loss, damage, failure to pick up: If any of the [former] happens to a package, the delivery is considered a failure...In SQI scoring, such a violation is weighted at 10 times the actual occurrence.\(^{104}\)

Federal Express uses these measures as performance indicators. "We're looking for improvement...it's ongoing data. We seek trends, in both direction and magnitude. It's where are we and where are we going."\(^{105}\) In


\(^{103}\)Ibid., 12.

\(^{104}\)Ibid.

\(^{105}\)Ibid.
addition to providing useful information, SQI data is "specifically tied to corporate bonuses [so] you can believe the employees pay attention to it." 106

The key to SQI's success is its accurate reflection of customer needs. The measurements are developed based on daily customer interviews done by a market research firm. Two thousand one hundred interviews are held each quarter with "the person at the client company who makes the shipping decision and the person who executes it." 107 The SQI "attributes for measuring success have come directly from interviews with customers since the summer of 1985." 108

The point of the illustration is to show how Federal Express translates customer needs into standards and develops measures to gauge these standards. Asset management firms can likewise take an intangible service product and develop standards and measures to improve it.

How Surveyed Firms Measure Quality

Applying the measurement framework from Chapter 2 to the definitions of quality given by each firm and their tenants suggest that both firms have made starts at measurement but have significant room for improvement. The critical missing piece is the clear translation from tenant need to quality standard to explicit measurement criteria.

Capital's primary measurement tool is a tenant survey. Recently developed, the questionnaire 109 asks tenants to rate: 1) "the management staff for their effectiveness in handling tenant problems and requests in an efficient and courteous manner," 2) the building services (elevators,

106 Ibid.
107 Ibid.
108 Ibid.
security, etc.), and 3) each member of the building staff. The survey also contains open-ended questions such as "how could service be improved?"\textsuperscript{110} It concludes with room to provide an overall assessment. The responses are summed/summarized for each project and the results are reviewed by regional management and used as one measure of asset manager performance (discussed in detail beginning on page 55).

Capital's asset managers have also developed personal measures to improve their own performance. One asset manager put tenant calls in a "tyranny of the urgent" category, leading the property manager to adopt a maximum response time of 10 minutes. Other informal measures include the number of prospects referred by current tenants, the turn-around time on lease drafts, and the number of tenant contacts per month. These examples were conceived by asset managers on their own.

ABC focuses on measures that relate to tenant retention. These include the percentage of tenants who renew their leases, the rental rates achieved at renewal, and the tenant improvement costs incurred. When the firm acquires property for an investor, it makes assumptions about these measures. Management regularly compares actual performance against the proforma measures as a way of monitoring its performance. Given the firm's desire to improve its renewal ratio, one asset manager suggested that early renewals be measured. For example, a weighted average "days before expiration index" could be computed that would track a manager's success at preemptive problem solving through early lease renewal negotiations.

As with all firms surveyed, ABC measures several items by gaining "more than a sense but less than a formal count."\textsuperscript{111} Among these items are the number of property manager - tenant contacts, the percentage of time that asset managers are "in the field", monthly review of the tenant complaint log,

\textsuperscript{110}Ibid.

\textsuperscript{111}Principal in charge of Asset Management, ABC Realty Advisors, interviewed by author, 28 March 1991.
and an "open issues data base" that tracks progress on resolving tenant issues. In addition, when a space is vacant, the number of "broker showings" is tallied. The firm has also begun using "tenant satisfaction surveys" to measure their quality of service. The asset managers working for the firm are aware of management's interest in these measures and keep careful tabs themselves.

Some measurements used by Capital and ABC are consistent with the framework; others could be refined to yield greater tenant satisfaction. A good example of a measurement that fits the standard was the self-imposed ten minute response time developed by a Capital property manager. The links are clear: the tenant needs "responsiveness"; the property manager translates this into a standard: minimize the time a tenant spends waiting and then measures this standard in "minutes until the contact is made." ABC's "open issues" data base also indicates how quickly and effectively tenant issues are resolved, but clear standards and measurements are not included. Monitoring tenant complaint logs also starts to measure quality, but without systematically tracking the data, its use in reducing tenant complaints becomes less effective. These firms are beginning to make progress on measuring their quality, but significant opportunity still exists.

One potential obstacle to progress lies in understanding, in Ishikawa's words, "substitute quality characteristics" that can be measured versus the "true quality characteristics" that their customers need. To illustrate, ABC informally measures its tenant complaint logs. One Meadow Commons tenant noticed a crack in a sidewalk and notified the property manager, and the crack was repaired. Completion of the task is what the open issues data base measures, but this is a substitute quality characteristic. Meadow Commons caters to elderly customers who often must use walkers or canes. A merchant in this center needs to provide safe access for his/her customers, a particularly acute need for the elderly. The true quality characteristic this merchant needs is safe access; the substitute quality characteristic the asset management firm provides is good maintenance. By
understanding the true quality characteristic more fully, the asset management firm could develop measures that more closely approximate tenant needs. A monthly safety audit by the asset manager as part of a routine visit is one example. By measuring safety, the asset manager could improve the center’s success.

The measurements derived from Capital’s tenant survey are too broad to meaningfully gauge the real quality characteristics of their service. For example, the survey asks for a 1-10 rating of the “Security System.” The performance (against a tenant need-based standard) that the question seeks to measure are unclear. One tenant interviewed is a defense contractor whose security needs relate to terrorism. Another keeps late hours and may worry about personal safety in the parking lot. A third sells computer equipment in a retail shop and is concerned with property theft. Each of these tenant needs creates a distinct quality standard. By measuring satisfaction with the “Security System,” the survey does not give the firm enough information to learn how well it is meeting specific standards.

Another area where both firms can improve their measuring is behavior traits. All tenants considered behavior traits to be extremely important to their perceptions of quality. When tenants were asked to describe positive behavior traits in asset managers, virtually all identified "responsive", "listening", "knowledgeable", "accessible", and "helpful" as identifiable and desirable traits. Conversely, "arrogance" and "non-responsive" were commonly stated as negative characteristics. As Rosander argues, these traits are identifiable; standards can be set and progress measured. Asset management firms could improve their service by incorporating tenant perceptions of behavior into a tenant survey, and using the information to cure deficiencies.

Both firms are making progress in measuring quality. As they begin to forge the links between customer needs, quality standards, and good measures, quality will improve. Measures must be accurate proxies for the quality characteristic they seek to gauge. Behavior traits should be included in the measurement scheme. Only with a rigorous measurement scheme can quality be tracked and improved.

The Asset Manager and Quality

Obviously one of the key players in delivering service is the asset manager. The framework asks how these individuals are hired, incented, and evaluated. What steps does a firm take to insure that the right people are well motivated to provide quality service? This section draws on the experience of the Direct Tire Sales company to show how hiring and incentives relate to quality. After the case study, the policies of the two firms are reviewed and analyzed.

Case Study: The Front Line at Direct Tire Sales

Hiring the right employees and providing incentives are important components in delivering customer service. This relationship is profoundly illustrated by the success of Direct Tire Sales of Watertown, Massachusetts.\footnote{Paul B. Brown, "The Real Cost of Customer Service," Inc Magazine, (September 1990): 49-60.} A single store operation, Direct boasts of sales volume and profit margins that are among the best in a very competitive business.

Direct's formula rests on customer satisfaction. Critical to its success is the recruitment of mechanics. To identify appropriate individuals, the owner "does something virtually unheard of in [the tire sales] industry. He uses a headhunter."\footnote{Ibid., 54.} The headhunter is given specific parameters:
A minimum of two to three years’ experience, so they know what they’re doing. Certified in their specialty. They can’t have had five jobs in the last five years. I want people who are reliable. Ideally, they’ll be married with a couple of kids. People with responsibilities are more dependable. They have to be able to get along with both customers and their fellow employees.\textsuperscript{115}

The headhunters locate individuals who meet these criteria, usually from competing shops, and earn a fee equal to 10-15\% of the first year’s salary. Direct Tire Sales benefits by hiring those best equipped to meet its high quality and customer service standards.

In order to attract well-qualified mechanics, the firm pays “15\% to 25\% over scale...In most cases, that salary is substantially higher than it was at the employee’s last job.”\textsuperscript{116} Although not an incentive in the sense of a bonus, the salary premium reinforces the company’s commitment to quality and is a positive motivating force.

The firm’s owner sees several benefits to his personnel selection and compensation strategies. He believes the approach is “helping him build a reputation for doing the job right the first time [since] good people make fewer mistakes.”\textsuperscript{117} He also recognizes customer service benefits: “Who would you rather have dealing with your customers? Someone who’s smart and understands what he’s doing or someone who isn’t?”\textsuperscript{118}

\textit{How Surveyed Firms Hire, Evaluate, and Incent Asset Managers}

\textsuperscript{115}Ibid., 54.
\textsuperscript{116}Ibid., 54.
\textsuperscript{117}Ibid.
\textsuperscript{118}Ibid.
Personnel selection, employee evaluation and performance incentives should reflect the firm's stated quality goals -- consistency counts. By identifying a set of appropriate personality traits, firms can hire managers who are personally suited to deliver quality service. Setting individual performance goals congruent with the firm's defined and measurable quality standards will generate results. Both Capital and ABC have personnel selection criteria and salary incentive plans that are intended to identify and motivate good asset managers.

Capital looks for "energy, a positive attitude, an ability to think on one's feet, self-motivation, and experience" when hiring asset managers, said a Regional Director.119 A second hiring manager checks references specifically to identify the customer service capabilities of the candidate.120

Capital's hiring profile is consistent with the quality goals defined by its mission statement and by the tenants interviewed. The document states "we must work to provide a quality space that meets their [the tenant's] needs," and "Because tenants are our customers, we will stay in contact with them."121 Their tenants cited "responsiveness" and "flexibility" in describing a good asset manager.122 Capital's hiring profile matches these goals. Additional qualities might include "problem solving skills" and a "marketing orientation" to address the candidate's ability to "meet tenant needs" and be "responsive and flexible." Checking past customer service behavior is a well-targeted strategy.

119 Regional Director of Asset Management, Capital Development and Management, interviewed by author 20 May 1991.


122 See Section 3.32, "How Surveyed Firms Define Quality" on page 55.
ABC prefers to hire managers with several years of real estate experience. The Principal in charge of Asset Management looks for "chief operating officers" who can manage property as a business endeavor.\footnote{Principal in charge of Asset Management, ABC Realty Advisors, interview by author 22 May 1991.} As a firm of "real estate junkies,"\footnote{Ibid.} the asset manager profile includes varied real estate related backgrounds such as real estate lending and appraisal.

ABC’s hiring profile is consistent with its mission statement. The mission statement identifies a principal priority as “Apply an energetic, intelligent entrepreneurial and proactive approach to maximize the value of each investment...”\footnote{ABC Realty Advisors, “Standards and Responsibilities of the Asset Manager,” obtained from the company by the author, March 1991.} Although non-specific, a "COO" type individual would be expected to satisfy the defined requirements. ABC’s tenants defined quality in more personal terms such as wanting a "listener" or a good "communicator who is knowledgeable."\footnote{See page 46.} These may or may not be qualities of a COO, but given their importance to tenants, the hiring profile could be expanded.

Capital’s incentive structure, shown in Table 3, is consistent with its quality of service goals, and as the firm’s ability to measure quality improves, the incentive structure could be improved as well. With 20% of a manager’s bonus tied to tenant ratings, good service is rewarded. A second 20% of the bonus is based on occupancy, itself in part determined by the service an asset manager provides (i.e., poor service leads to greater tenant turnover). With more refined quality measurements, the incentive structure could be more closely targeted. Performance evaluations for asset managers are based on similar criteria but may also include personal objectives.
### Table 3.2
**Capital Incentive Structure**

<table>
<thead>
<tr>
<th>Percentage of Bonus</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% of Total Bonus</td>
<td>Corporation meets its annual goals</td>
</tr>
<tr>
<td>20% of Total Bonus</td>
<td>75% paid if manager's portfolio operating income meets budget</td>
</tr>
<tr>
<td></td>
<td>25% paid if manager's portfolio operating income exceeds budget by 5% or more</td>
</tr>
<tr>
<td>20% of Total Bonus</td>
<td>Paid if 85% of rent is collected by 10th of the month</td>
</tr>
<tr>
<td>20% of Total Bonus</td>
<td>75% paid if occupancy is 90%</td>
</tr>
<tr>
<td></td>
<td>100% paid if occupancy is 92.5%</td>
</tr>
<tr>
<td>20% of Total Bonus</td>
<td>Paid if 80% of tenants rate manager as good or excellent</td>
</tr>
</tbody>
</table>

Table 3.1: Capital Development and Management asset manager incentive criteria.

ABC's incentive and evaluation structures are consistent with its mission statement, but lack specificity. The firm's asset managers are evaluated as though they were "COO's of their asset portfolios," meaning that they are expected to adopt a comprehensive approach to maximizing value. ¹²⁷ They

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¹²⁷ Ibid.
are encouraged to identify ways of adding value to their properties and are rewarded based on profitability. ABC's incentive structure is 100% discretionary but is based on individual goals developed between asset managers and the Principal in charge of Asset Management. These goals are broken down into "micro, macro, and growth" categories. Micro goals are property specific and may include objectives such as "selling an outparcel." Macro goals relate a manager's performance in general, and could include "spending 30%-40% of your time on the road visiting your properties." Growth goals refer to personal improvement and include participating in professional designation programs and taking outside courses.128

As a discretionary system, ABC's incentive structure may or may not be tied to goals pertaining to quality of service. Several individuals spoke of "time on the road" targets meant to incent a manager's personal contact with his/her tenants and properties, but the specific elements of quality service are not explicit.

**The Subcontractor and Quality**

In traditional manufacturing enterprises, subcontractors provide component parts that contribute to the intrinsic quality of the completed product. This relationship is even more acute in asset management. A poorly trained janitor who mistakenly discards a key document from a tenant's desk will reflect very poorly on an asset manager, even though the janitor is employed by a totally separate firm. Therefore, insuring quality of service from subcontractors is extremely important for asset managers.

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128AssetManager, ABC Realty Advisors, telephone interview by author, 19 July 1991.
Case Study: McDonald's Corp. Suppliers

As Chapter 2 pointed out, the notion of a quality improvement program in service companies is a recent phenomenon. A literature search for case studies of quality in "pure" service identified no clear examples, but firms that are both product and service based do have a history of quality control with their suppliers. Perhaps the most noted example is McDonald’s.\textsuperscript{129}

As John Love writes, McDonald’s “developed in its suppliers a commitment to serving the system that is rare among any outside suppliers.”\textsuperscript{130} McDonald’s nurtured this quality ethic from the start of each new supplier relationship. The firm awarded business to small, entrepreneurial companies that expressed willingness to provide "special attention [and] to meet a standard of responsibility and accountability" for quality that McDonald’s demands.\textsuperscript{131}

Working closely with its suppliers, McDonald’s initially set quality standards. In the ensuing years, reciprocal, nurturing relationships developed where each party worked to improve the quality of McDonald’s products. In developing this cadre of loyal and dedicated suppliers, McDonald’s has forged a group that are

as dedicated to maintaining and improving the quality of [McDonald’s] as they would be if they were owned by McDonald’s. They not only monitor their own quality control, they check on the quality of other suppliers in the system. They maintain their own quality assurance staffs, which regularly visit the [McDonald’s] stores to determine that products are being properly prepared and stored. They even check the company and take issue with corporate managers when they believe the integrity of the system’s network is threatened.\textsuperscript{132}


\textsuperscript{130} Ibid., 327.

\textsuperscript{131} Ibid.

\textsuperscript{132} Ibid.
This mutual commitment to delivering a high quality customer experience has been an integral part of McDonald's success.

One example that relates to customer service concerned the french fry wrapper. The distributor convinced a McDonald's purchasing manager to switch to a "cheaper, thinner paper" in order to boost profits. The new bag "proved to be too pliable in the store, which resulted in french fry crews putting too many or too few fries in the bag," and with a basic customer service covenant of McDonald's being a "full bag of french fries," this was a major mistake. When the CEO found out about it, his rage was directed not only at the McDonald's manager who had ordered the change. He also took [the supplier] to task, insisting that he should have known better than to fool with McDonald's most important product.

By holding both the manager and the supplier accountable for quality, McDonald's is able to achieve consistently good results.

The point is to illustrate how McDonald's has gone beyond simply setting standards for suppliers and enforcing them; McDonald's views the relationship as a partnership. Similarly, given the customer contact that subcontractors have, asset management organizations could benefit from quality oriented "partnerships" with their subcontractors.

How Surveyed Firms Chose and Manage Subcontractors

All of the experts discussed in Chapter 2 were adamant about the incorporating quality into the subcontractor choice, contract, and on-going relationship. Since tenant service is produced and consumed simultaneously and the producer is often a subcontractor, the choice and management of subcontractors is vital to delivering quality service. As with hiring and performance incentives for in-house employees (see page 55), an

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133 Ibid., 327.
134 Ibid.
asset management firm’s definition, standards, and measurements of quality should be incorporated into the subcontractor relationship.

Asset management organizations either use in-house property managers or subcontract the function out to third party “fee managers.” Capital does both, depending on location, but Gateway Towers is managed in-house. As with Meadow Commons, ABC primarily uses fee managers.

Property managers are the most important individual that shapes tenant satisfaction -- he/she is the primary tenant contact person. In cases where property management is subcontracted, quality of service to tenants should be an explicit, measured part of the contract.

ABC subcontracts its property management function. ABC’s property management contracts do not include a quality of service clause relative to tenants, but do mandate property managers to provide the “highest caliber reporting standards” to ABC. The contract also provides for financial incentives for tenant renewals. Within the contractual framework of reporting standards and renewal incentives, frequent communication between the asset manager and the property manager provides a channel for assuring quality. Maintenance subcontractors are selected by the local property manager. As the property manager stated it, "local managers have vendor relationships" that have developed over a period of time, so managers have trust in certain firms. Quality clauses are not included in maintenance contracts.

This arrangement is generally inconsistent with the framework. Close communication between asset manager and subcontractor is part of the framework, but quality is not an explicit part of the relationship. Incentives paid for releasing comes close, but if it is the only financial incentive it

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135 Principal in charge of Asset Management, ABC Realty Advisors, interview by author 01 August 1991.

136 Property manager assigned to an ABC Realty Advisor’s property, interviewed by author, 02 July 1991.
begins to look like a deal-based commission and not a quality of service tool. By bringing quality standards into this subcontractor relationship also, quality of service could be improved.

Depending on the nature of a specific property, tenants may see more of the maintenance subcontractors than either the property or asset managers. Given this dynamic, there is substantial ability to improve the perception of quality by explicitly incorporating quality into the subcontractor relationship. Quality of service is an explicit part of Capital's relationships with its subcontractors. A tenant service component is included in all requests for proposals issued by the firm, and the standard service contracts employed by the company for maintenance firms such as janitorial service include a quality of service clause. In addition, asset managers recognize the importance of the subcontractor-tenant interface and manage the subcontractors closely. For example, an asset manager for Capital related a story about enforcing the quality clause with their janitorial service. When the service substituted ill-fitting toilet paper rolls that jammed in the dispensers, the asset manager reminded the subcontractor of their mutual commitment to quality, and the problem was solved. Obviously the asset manager did not need a "quality clause" to achieve results, but it gave the incident a broader meaning for both parties.

**Training for Quality**

The framework from Chapter 2 stresses the importance of training in service operations. Due to the simultaneity of services, a firm cannot effectively "inspect" the quality of the "product" its line staff produces. Therefore, the firm must be certain that its front line employees are capable of providing quality service. Training can be an effective tool to this end.

The framework suggests that three kinds of training are important: job training, education, and informal training. Job training refers to teaching staff how to execute one's job properly. Education is broader and covers industry related material. Informal training means how does a firm share
ideas internally. These three types of training are illustrated by the experience of the ServiceMaster Company.

Case Study: Training at ServiceMaster

The following example shows how the ServiceMaster Company incorporates training into its overall quality of service program. The firm provides hospitals, schools and industrial companies with professional management and supervision of the housekeeping, food service, and maintenance personnel employed by these organizations. ServiceMaster's CEO states the philosophy: "Before asking someone to do something you have to help them be something." The firm provides educational and motivational programs to help the employees, many of whom are illiterate, to "be something." ServiceMaster conducts an internal "masters" program to train its supervisors how to teach its client's employees. These supervisors in turn provide well conceived training to their client's employees, including pictorial, color-coded instructional material and weekly sessions for exchange of ideas and literacy development. The best example of ServiceMaster's commitment to training occurred when one of its hospital clients wanted to hire a deaf person. ServiceMaster responded by sending three supervisors to a course in sign language. The results are striking: the turnover rates for both ServiceMaster and its clients is well below the industry average, and its return on equity has averaged 30% over 12 years.

ServiceMaster effectively uses job training, education, and informal training to improve quality. Its masters program teaches its supervisors specifically how to do their jobs so as to meet ServiceMaster's standards, notwithstanding their past experience. It provides education both to its own staff, sign language courses for example, and to its clients staff in the form

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138 Ibid.
of literacy training. ServiceMaster's weekly sessions offer added opportunity for informal training. Obviously ServiceMaster faces different challenges with lessor educated staff than does an asset management firm, but abstracting the parallels and applying them to a literate, college educated setting provides insight into how training can improve quality.

**How Surveyed Firms Train**

The real estate industry has traditionally been a "seat of the pants" industry that paid limited attention to training. Both Capital and ABC incorporate different sorts of training into their organizations where most other firms do not. Compared with other service industries, however, much is left to be accomplished in job training, education, and informal training.

Both firms espouse a commitment to training, and they both offer job training, education, and informal training. Capital actively promotes training. In its mission statement, the firm states:

"We recognize that our profession is constantly changing, and that new ideas and methods help us to stay competitive in the marketplace. Our continuing education not only reflects our company’s commitment to professionalism and excellence, it reflects personal commitment as well."  

Capital implements the objective through monthly employee training seminars, educational reimbursement, and monthly idea-sharing sessions. The training seminars have covered topics such as negotiating techniques, sales skills, and lease mechanics. The firm also reimburses the cost of classes taken outside of work on topics related to the employee's job. Several of the asset managers were taking advantage of this program to defray the cost of earning professional designations. The informal idea-

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sharing sessions include a "most outrageous tenant and how did you handle it" prize, and other dialogue stimulating exercises. The firm’s training program is extensive by industry standards. Capital does not extend their training to their subcontractors.

ABC also encourages and sponsors training. Job training occurs in the form of technical training meetings led by senior managers are held "once or twice a month." Specific topics such as "sale/lease-backs" or "technical title issues" are covered in order to give the entire staff familiarity with various real estate tools. Relative to education, one asset manger noted that ABC "is the world’s most supportive company when it comes to education." The firm reimburses the cost of outside courses and seminars and actively encourages its asset mangers to pursue professional designations. Informal training occurs "one-on-one" between principals and managers since each property has a principal assigned as a resource. Principals often "contribute thoughts on big issues and say 'Hey, did you think of this...'" ABC does not provide training for its subcontractors.

Comprehensive job training programs were not used by either company. The firms felt that by hiring "experienced" managers, specific job training programs were unnecessary. There is debate within the industry as to the importance of job training. Coldwell Banker’s property management training program (until recent cuts) included a "runnership" program where aspiring property managers apprenticed with veterans. The Balcor Company ($8 billion in assets under management) employs three full-time trainers who

140AssetManager, ABC Realty advisors, telephone interview with the author, 19 July 1991.

141Ibid.

142Ibid.

143Property manager assigned to ABC Realty Advisors’ property, interviewed by author, 02 July 1991.
conduct a multi-part new employee training program.Obviously economies of scale exist for formal training programs, but the opportunity for a firm to "place its stamp" on new managers should not be overlooked.

The ServiceMaster experience points out the opportunity for asset management firms to improve their service to tenants by crossing company lines with internal training programs. ServiceMaster employs supervisors whose major function is to train and manage another firm's staff, but ServiceMaster is evaluated by the results of the service delivered (i.e., how clean are the hospital floors). Similarly, asset managers are evaluated on building maintenance that is often delivered by a separate property management company. The parallel experience suggests that by providing some training of property management staff, asset managers could improve the quality of the service provided to their tenants.

Asset managers from both firms praised their firm's policies on education. One manager was very pleased with the opportunity for self-improvement by taking company reimbursed professional development courses that would lead to an industry designation. Another considered the company's education reimbursement program to be an important indicator of the value that the firm places on its employees. Relative to company seminars, one asset manager felt that the specialized technical training had been "very beneficial" and improved important job skills.

Although lacking the drama of ServiceMaster's story, training seminars and reimbursement for industry designation classes (e.g., Certified Property


Manger) are examples of fostering a "be something" attitude. The training provided by Capital to its managers engenders self-respect in "doing it right," or as Deming calls it, developing pride in workmanship. By participating in the various seminars offered, managers felt a commitment on the part of the company for developing its people. Comparing this to a previous employer, one manager believed that fear of losing his/her job had been replaced with a sense of security that allowed him/her to focus on improving skills.

**Evaluation of Organizational Structure**

For the previously reviewed quality improvement program to work, it must be cast within an organization that is structured appropriately. This section applies the organizational structure part of Chapter 2's framework to Capital and ABC. Specifically, the analysis focusses on the customer, management, and corporate culture of each organization relative to the framework.

**The Customer and Quality**

As the standard-setter, the tenant customer is, in Deming's words, "the most important part of the production line." How each firm seeks to translate the customer's needs into features of their service package is the critical link in determining whether a firm achieves its quality objectives. The key idea is the ability to see the business through the customer's eyes. Once firms understand their customers, they are prepared to provide "value added services" and master the "moments of truth."

**Case Study: The Customer and "Courtyard by Marriott"**

The story of the development of "Courtyard by Marriott" illustrates an effective translation of customer needs into service and product features

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¹⁴⁸ Deming, *Out of Crisis*, 5.
based on a thorough understanding of their customer. In the early 1980's, Marriott Corporation recognized that it needed to create a new product type in order to meet its long-term growth objectives. The company hired marketing consultants "to conduct a large-scale consumer study among business and nonbusiness travelers, aimed at establishing an optimal" product and service package.

The marketing consultants "surveyed 263 midlevel business travelers, 83 high-end business travelers, and 255 nonbusiness travelers." These individuals were asked to evaluate their needs for 12 different types of potential hotel services (asterisks indicate final design).


\[150\] Ibid., 25.

\[151\] Ibid., 28.

\[152\] Ibid., 26.
Table 3.1
Courtyard By Marriott Design Features

<table>
<thead>
<tr>
<th>Reservations:</th>
<th>Bellman</th>
<th>Concierge:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call Hotel*</td>
<td>None*</td>
<td>None*</td>
</tr>
<tr>
<td>800 #*</td>
<td>Yes</td>
<td>Info.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Check-In:</th>
<th>Message Svc.</th>
<th>Secretarial:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard*</td>
<td>Front Desk</td>
<td>None*</td>
</tr>
<tr>
<td>Pre-approved Machine</td>
<td>Phone light*</td>
<td>Info.</td>
</tr>
<tr>
<td></td>
<td>Light + deliv.</td>
<td>Arrangements</td>
</tr>
<tr>
<td></td>
<td>Recorded</td>
<td>Problem Solving</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Check-Out</th>
<th>Cleanliness:</th>
<th>Car Maint:</th>
</tr>
</thead>
<tbody>
<tr>
<td>At front desk*</td>
<td>Motel level</td>
<td>None*</td>
</tr>
<tr>
<td>Bill und. door*</td>
<td>Holiday Inn lvl.</td>
<td>Take car to svc.</td>
</tr>
<tr>
<td>Bill by mail</td>
<td>Std. Hyatt lvl.*</td>
<td>Gas on site</td>
</tr>
<tr>
<td></td>
<td>Fine Hotel lvl.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Limo to Airport</th>
<th>Laundry/Valet:</th>
<th>Car/Air Resv.:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None*</td>
<td>None</td>
<td>None*</td>
</tr>
<tr>
<td>Yes</td>
<td>Drop off*</td>
<td>Car Rental</td>
</tr>
</tbody>
</table>

In addition, respondents were also asked to construct an "optimum" service package where each service carried a price tag. For example, customers may prefer 3 "free" in-room movies, but not if it adds $2.50 to the room rate. After complex quantitative analysis, the result was a set of price-scaled preferences that were incorporated into the "Courtyard by Marriott" product.
The results were telling. As Marriott implemented the concept, building 175 hotels by January of 1989\textsuperscript{153}, its market share was "within four percentage points of the share predicted" by the consultants.\textsuperscript{154} In addition, guest tracking studies "revealed that the features and services offered are very important to the consumer and are perceived as better at Courtyard by Marriott that at its competition."\textsuperscript{155} As A.B. Bryan, Jr., Executive Vice President of Courtyard by Marriott summarized, "In designing the actual product, the research allowed management to focus on the items customers wanted, and we avoided focusing on things important to management but not important to the consumer."\textsuperscript{156}

The point of the illustration is that Marriott made their customer part of the assembly line by involving potential customers in the design process. The product/service package they developed was based on seeing the world through their customer's eyes. By doing so, they insured a clear relationship between customer needs and quality standards.

\textit{The Customer and the Surveyed Firms}

To be good at customer service, firms need to be able to apply a customer's perspective to organizing their operations and designing their products. Firms must know as much as possible about their customers in order to gain this perspective. Asset management firms learn about their customers in several ways. Most of the learning comes from personal contact between the tenant and a representative of the asset management firm. Other sources are tenant surveys and third party marketing studies, such as the Courtyard by Marriott example. This section will review the

\textsuperscript{153}Ibid., 38.  
\textsuperscript{154}Ibid., 38.  
\textsuperscript{155}Ibid.  
\textsuperscript{156}Ibid., 46.
number of customer contact points each firm has, evaluate the quantity and quality of customer contact, discuss how well the organization shares the information internally, and analyze how effective each has been based on tenant feedback.

Capital's Gateway project has several contact points with its tenants. The asset manager, property manager and maintenance technician are located on-site, making them readily accessible. Capital's other contact opportunities include its tenant survey and toll-free tenant "hotline." The tenant survey asks if the respondent's "current suite [is] satisfactory for [its] business needs," giving the firm some perspective on the tenant's situation. The "hotline" connects directly to the Vice President of Asset Management. As the VP described it, we wanted "to connect the customer to the top, and you've got to make it easy..." A final occasional contact point is the property's exclusive broker who may share tenant information with Capital.

ABC's Meadow Commons project has fewer contact points. Inside ABC, only the asset manager has direct contact with tenants, except in a rare case where a principal becomes involved. ABC's property manager attends the monthly merchant's meetings and also visits the property "once a week," meeting with several tenants each visit. A subcontractor who makes small repairs on-site also has direct tenant contact. ABC's tenant survey and exclusive brokers may also provide some indirect tenant input.

There is little question that on-site management boosts the quantity of tenant contact. Capital's multiple on-site contact points provides a strong potential for learning about a customer's business. For example, Capital's maintenance technician arranged to store some surplus doors in an unused part of a tenant's premises. In return, when the tenant reconfigured their space, they were able to purchase the doors at a discount. As a result,

\[157\text{Vice President of Asset Management, Capital Development and Management, interviewed by author, 20 May 1991.}\]
Capital was able to learn a little more about how their customer uses its space.\footnote{Facilities Manager for a tenant leasing space from Capital, interviewed by author, 21 May 1991.}

ABC’s policy of encouraging asset managers to visit their projects frequently boosts the quantity of tenant contacts. One asset manager described the benefits of frequent trips. On a previously scheduled trip he/she was, by coincidence, able to have lunch with the property manager and a prospective tenant. In addition to the obvious marketing advantage, he/she was able to start learning about the company before they even moved in.\footnote{Asset Manager, ABC Realty Advisors, interview by author, 29 May 1991.} In general, however, ABC relinquishes contact opportunities by hiring third party property managers.

The quality of contacts is also important; how much an asset management firm learns about its tenants is what counts. One ABC asset manager, worried about a possible lease termination from an anchor grocery store, used the opportunity to learn more about the tenant’s business. By working with both the real estate department and the operations department of the store chain, he helped instigate a new promotion strategy and learned a great deal about the internal politics, operating procedures, and marketing programs of his tenant.

From an organizational standpoint, an important issue is whether mechanisms exist for sharing what is learned about a tenant. Due to asset manager mobility, one tenant often has two or three asset managers during the course of its five year lease. A new asset manager would have an advantage if he/she could benefit from the predecessor’s knowledge. As one tenant observed, when it comes time to lease, "what guarantee do you have that [the same asset] manager will be around...?"\footnote{Facilities manager of a tenant leasing space from Capital Development and Management, interviewed by the author, 21 May 1991.} Similarly, sharing...
information among the asset manager, property manager, leasing agent, and maintenance staff would also improve the ability of each to provide quality service. These systems are not formally in place at either firm.

Based on tenant feedback, each firm's success is mixed. Several of Capital's tenants felt that the asset manager understood their business, but several felt otherwise. The same was true with ABC's tenants. More research is necessary to reach conclusive results, but there appears to be room for improvement.

Management and Quality

The framework recognizes the central role management has in providing the support necessary for asset managers to deliver quality service. To be successful, management must provide leadership, systems to help asset managers deliver quality, and the knowledge and financial resources asset managers need to do their jobs well. In a sense, management's customer is the asset manager on the front line.

Case Study: Managing for Quality at Au Bon Pain

Au Bon Pain, a Boston based chain of bakery cafes, shows how real estate and quality operations can generate profitable results and serves to illustrate the importance of providing leadership, systems, and resources to front line managers. Its current ownership began in 1978 when a partnership was formed between a real estate veteran and a food operations manager. Together they formed a strategy of securing the best locations and providing quality food service.

Au Bon Pain's partners succeeded in several areas. Its operating partner "dreamed of a company built around a general, and passionate, concern for

its customers,\textsuperscript{162} and spent long hours is the stores providing hands-on leadership. Hiring a new VP of Operations away from McDonald’s, the partners added to the firm’s experience base and began devising operating standards. In spite of strong leadership and a development of operating systems, the enterprise faced problems.

Au Bon Pain experienced many quality of service problems typical for a food service firm. Staff turnover was well above industry average. Managers were suffering from burnout. At its worst, the firm’s service reached a point illustrated by the following incident:

A customer came in and ordered a turkey and Brie sandwich on a croissant. The employee behind the counter rang up the order, then realized that the store was out of croissants. Fine, the customer said, make it with another kind of bread. That wasn’t possible, the employee said; the other bread could only be sold in whole loaves. The manager appeared and asked what the problem was. The employee explained. Well, said the manager to the customer, we can give you your money back. A disappointed customer left the store empty-handed.\textsuperscript{163}

As the operating partner concluded, the firm’s carefully crafted operating standards caused customers to be turned away “to avoid slicing up a loaf of bread...[the standards] rendered store managers unable to think for themselves.”\textsuperscript{164}

The partners decided to restructure operations, ending exclusive reliance of written procedure and shifting the authority and responsibility for quality to store managers. The firm took a comprehensive approach. It increased store manager’s authority make decisions, and it placed the responsibility for these decisions squarely on the store manager by giving him/her a share of store profits. The reforms were significant:

\textsuperscript{162}Ibid., 71.
\textsuperscript{163}Ibid., 74.
\textsuperscript{164}Ibid.
The company was, in effect, leasing the stores to [the store managers]. It gave them goals for labor and food costs but agreed to split the controllable profits (over and above rent and depreciation) on a 50-50 basis.\textsuperscript{165} The results were almost immediate. "Overnight, managers began solving the problems the used to dump on the company. 'We finally had a system that didn't accept excuses.'"\textsuperscript{166} As the ownership concluded, "the stores have never run better."\textsuperscript{167}

The success of Au Bon Pain points out the need for management to provide comprehensive support to front line staff. The chain had a commitment to quality and systems to deliver it; what it lacked was store managers who had enough authority to "slice a loaf of bread." By granting more authority in exchange for greater responsibility, the owners unleashed the capacity of their store managers to serve their customers.

\textit{How Surveyed Firms are Managed}

Management of both Capital and ABC have taken several steps to provide the leadership, support systems, and authority suggested by the framework. Capital's Vice President of Asset Management described how they have implemented their quality improvement program: "you set the example -- it has to come from the top." To this end, the V.P. is "setting up systems to monitor tenant satisfaction" and trying to "connect the top with the customer."\textsuperscript{168} Among the steps taken was the installation of an "800" number that acts as a tenant "hotline" directly to the Vice President to be used if the local management isn't solving a problem. Asset managers also have support systems such as in-house legal lease review, tenant credit

\textsuperscript{165}Ibid.

\textsuperscript{166}Ibid., 75.

\textsuperscript{167}Ibid.

\textsuperscript{168}Vice President of Asset Management, Capital Development and Management, interview by author, 30 May 1991.
analysis, and a computerized budget tracking system. In terms of asset manager authority, the firm delegates lease signing authority to the regional director level for up to a medium sized lease, after which the Vice President and/or Chief Operating Officer must execute the lease.

Management of ABC also maintains a high profile in advocating tenant service. By leading company "quality of service" seminars and writing for industry publications, ABC's management is trying to inspire better customer service from its managers. In setting up the open issues data base and the tenant survey, management has designed systems to support the delivery of tenant service. According to the Principal in charge of Asset Management, the organization is "built to delegate" and pushes authority down the organization to the asset managers. Once a project budget is approved, asset managers are held accountable to the bottom line but have discretion as to how they reach it. Each manager has the authority to lease a medium sized space (at rates within the budget); larger deals require the involvement of the principal assigned to the property.

The key question posed by the framework is "Does management provide leadership, support systems, and adequate resources to allow line managers to provide quality service?" The two firms, owing to their difference in size, take different approaches to managing for quality.

Capital's senior management appears to offer strong leadership for quality improvement. The current VP of Asset Management was selected in part for his ability to lead a quality improvement program. The VP of Human Resources for Capital observed an emerging "Esprit de Corps" in the Asset Management Division, and others inside and outside of the Division credit the leadership provided by senior management.169

A delicate balancing act must occur between the "support" systems and granting of resources and authority. Capital provides its asset managers

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169 Vice President, Human Resources; Treasurer; Chief Executive Officer, Capital Development and Management, interviewed by author, 25-29 March 1991.
with extensive systems and specialized resources, but limits their authority to spend money. These support systems, in conjunction with limited financial authority, limits their ability to lease space responsively. Employees, brokers, tenants, and fee managers have noted long response times during lease negotiations. Having in-house sign-offs from the legal department and "higher-ups" in asset management creates delays. The question is, "do the providers of in-house services have a customer service view toward the asset managers they serve?"

ABC also appears to have strong quality leadership. The recent promotion of the head of asset management (a vocal advocate of quality service) to Principal is one indicator of the firm's strong support for quality improvement. One asset manager credits this individual with creating a "tenant driven culture" where tenant service counts.

ABC's support systems and delegation of authority support its asset managers well. For example, its open issues data base provides asset managers with an organized way to keep track of tenant issues, without hindering their ability to solve them. One asset manager noted that for deals within his/her authority, senior management "probably doesn't know much about the small deals at all," leaving the manger unhindered. By granting authority to both the property manager and the asset manager, the firm gains responsiveness. Noted one third party property manager, ABC "is

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170 Asstated by two former property managers, one broker, and a current tenant in interviews held in person and by telephone with the author, 05 April 1991, 08 April 1991, 08 April 1991, and 28 June 1991.

171 AssetManager, ABC Realty Advisors, telephone interview by author, 18 July 1991.
exceptional on turn-around,"\(^{172}\) and a broker familiar with the firm praised their responsiveness, both on leasing and property sales/purchases.\(^{173}\)

**Quality of Service and Corporate Culture**

Since quality of service is judged by the tenant at the point service is delivered, firms must make certain that the service provider is committed to delivering quality. Service is provided by asset managers, property managers, maintenance technicians, and various subcontractors. Insuring quality from subcontractors is covered in a separate section, "The Subcontractor and Quality," beginning on page 60. This section deals with the inculcation of a quality ethic within the asset management organization itself.

**Case Study: Quality Culture at Hampton Inns**

A popular marketing tool cited in the BBBK example cited above is the service guarantee. Service guarantees serve an important internal function as well: they focus staff on delivering quality. Hampton Inns, a 240 unit chain of upper-economy hotel properties, has successfully inculcated quality into its organization by guaranteeing quality to its customers.\(^{174}\)

Hampton Inns offers its guest the guarantee that "if, for any reason, guests are dissatisfied, they get that night's stay free."\(^{175}\) Based on a study conducted in late 1989, "the guarantee has created high employee

\(^{172}\) Property Manager assigned to ABC Realty Advisor's property, interviewed by author, 02 July 1991.


\(^{175}\) Ibid.
involvement and pride in working for Hampton Inns. The survey contained the following results:

Forty-six percent of managers and employees polled volunteered (on an unaided basis) that the guarantee has positively influenced their job by making them work harder, making them more aware of what they are doing, or causing them to strive for customer satisfaction... Management and employees support the guarantee... 75% said the guarantee makes Hampton Inns a better place to work and 68% said in has improved employee pride... 177

The corporate culture has adopted a commitment to quality service. As one employee summarized: "I take a little more care with my work, making sure everything is OK before we have a complaint. We concentrate more on preventing problems that letting things go." 178

The point of the illustration is that the maid understands and shares the firm's commitment to quality. This same relationship should apply to a maintenance technician and a property manager, if the quality ethic is a cornerstone of the firm's culture.

The State of the Quality Culture at the Surveyed Firms

Two elements are important in evaluating how well the firms have spread the message of quality: process and results. The goal of the process is to obtain commitment from those involved. At one end of a participation spectrum is Ishikawa, who recommends that "everyone in every division in the company must study, practice, and participate in quality control." 179

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176 Ibid.
177 Ibid.
178 Ibid.
179 Ishikawa, What is Total Quality Control?, 91.
the other extreme is Juran who advocated a written quality policy. The framework advocated comprehensive involvement so as to take advantage of the experience and training that asset managers typically possess.

The organizations studied lie within this spectrum. Capital relies on a more top-down approach where standards are set from above. Capital has devoted considerable resources to delivering the quality of service message to all of its employees. The inculcation process begins with the "Asset Management Philosophy" document that every employee of the asset management division receives. Written and regularly referenced by the Vice President of Asset Management, the statement is formally presented to each new employee and was familiar to every staff member interviewed.

Capital reinforces its quality of service principles in several ways. It holds regular seminars designed to "build both the attitude and the mechanics of customer service" into its asset managers. The firm also incorporates a customer service component into its bonus structure (discussed in detail beginning on page 55). It also makes the asset manager a tenant advocate to the development group, acting as the tenant's representative on the pre-occupancy inspection and providing design input for new projects. Finally, by hiring property managers who have a demonstrated track record of providing quality service in their previous assignments, the firm creates an easier "sell."

Capital's program appears to be working. Every company employee interviewed expressed a commitment to customer service. Front line staff took pride in their ability to "listen patiently" to tenant complaints and focus their energies on successfully "solving the problem" as expeditiously as possible. Middle and upper management exhibited similar commitment.

\[180\] Vice President of Asset Management, Capital Development and Management, interviewed by author 28 March 1991.

ABC is also directing resources toward creating a quality of service culture. As with Capital, ABC has also created a set of written quality of service standards. To build these standards into the culture, the firm has undertaken several initiatives. Each year, the company holds an annual retreat that includes the asset managers. The most recent retreat dealt "primarily with customer service" and featured outside speakers and senior management. Another mechanism for building a customer culture is the open issues data base. It provides a regular forum for asset mangers and principals to discuss progress in resolving tenant issues and focusses attention of quality service. The firm also tries to incorporate customer satisfaction into its bonus structure via tenant retention ratios.

ABC has also successfully spread the quality of service message within the firm. One asset manager spoke of "little dumb things" he/she does to improve customer satisfaction, such as arranging for a local bakery to sell "breakfast tacos" each morning in an office building. "What else can we be doing" was this asset manger's performance rubric.

Summary

Summarized in Table 3.3 on page 86, the results of the analysis indicate a significant opportunity exists for both firms (and, by implication, the industry as a whole) to improve their quality of service. Although the surveyed firms deliver a reasonable tenant service package, they could derive a significant competitive advantage. Since both firms have mobilized commitment to address the quality issue, they have a head start over the many firms who have not.

182 Development Manager, ABC Realty Advisors, interviewed by author 29 May 1991.

183 Asset Manager, ABC Realty Advisors, interview by author, 22 May 1991.
Both organizations have developed written statements of quality, and individual asset managers often take these documents a step further and develop their own working definitions. The key missing link is the rigorous translation of customer need into standard. The framework developed in Chapter 2 is not static; it is dynamic. Figure 3.1 shows how the framework functions.

![Figure 3.1: Summary of Framework.](image_url)

The two inputs are "learning about the customer" and "customer needs." From these input come the "tools to deliver quality" and "delivering quality service." Both firms could benefit by focusing attention on the inputs to the system. Learning about the customer is essential to identifying the customer's needs. By creating an organization geared to understand their customers, management is in a better position to accurately define customer
needs. Since the entire quality improvement program rests on customer needs, this is obviously a critical skill for an organization to develop.

The absence of this link reemerges in the more mechanical parts of the framework. Both firms lack clarity in their quality initiatives relative to hiring and incenting their managers, engaging their subcontractors, and training their staffs. Without focus, these elements of the quality improvement program grow murky and risk becoming internally inconsistent.

Similarly, the way these organizations function has strong bearing on their ability to deliver service. Building a quality culture, creating mechanisms for seeing the business through the customer’s eyes, and providing leadership, systems, and resources to the asset managers all affect the final product. Each part of the organization must be built around quality.
TABLE 3.3  
SUMMARY OF ANALYSIS

<table>
<thead>
<tr>
<th>FEATURES</th>
<th>ANALYTIC FRAMEWORK</th>
<th>CASE STUDY</th>
<th>RESULTS OF ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROGRAM:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definition</td>
<td>Translate customer needs into standards at a competitive price.</td>
<td>B B K P e s t Control</td>
<td>Some standards do not relate directly to customer needs; missing standards on price and CAM billing</td>
</tr>
<tr>
<td>Measurement</td>
<td>Create measures that closely gauge the &quot;true quality characteristics&quot;</td>
<td>Federal Express</td>
<td>Confusion over translation of standard to measurement; confusion between true and substitute characteristics; lack behavior trait measurements</td>
</tr>
<tr>
<td>Employee</td>
<td>Integrate hiring criteria and incentives with standards</td>
<td>Direct Tire Sales</td>
<td>Hiring profiles do not fully reflect the definitions of quality; ABC's incentive structure does not match existing quality definition.</td>
</tr>
<tr>
<td>Subcontractor</td>
<td>Make quality part of contract; nurturing</td>
<td>McDonald's</td>
<td>ABC does not incorporate quality into subcontracts, Capital does</td>
</tr>
<tr>
<td>Training</td>
<td>Provide education and formal/informal training</td>
<td>ServiceMaster</td>
<td>Both firms offer good job skill building, encourage and sponsor education, and provide informal training.</td>
</tr>
<tr>
<td><strong>ORGANIZATION:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inculcation</td>
<td>Companywide participation emphasizing line</td>
<td>Hampton Inns</td>
<td>Successful inculation in both firms</td>
</tr>
<tr>
<td>Customer</td>
<td>Develop ability to see the business through the customer's eyes</td>
<td>Courtyard by Marriott</td>
<td>Most tenants felt their property or asset manager failed to understand their businesses.</td>
</tr>
<tr>
<td>Management</td>
<td>Provide leadership, systems and resources to front line</td>
<td>Au Bon Pain bakery cafes</td>
<td>Good leadership and systems; Capital managers lack authority</td>
</tr>
</tbody>
</table>

86
CHAPTER 4: CONCLUSIONS

Stanley Iezman, president of Birtcher Realty Advisors, writes, "Asset and portfolio managers must understand that managing real estate is no different than any other service-oriented business: service is everything."\(^{184}\) As the asset management industry grows to recognize that providing quality service produces higher returns through lower turnover, more firms will institute quality improvement programs and reorganize their companies. However, improving quality requires more than slogans -- it requires a comprehensive, company-wide effort that stems from an honest commitment to serve the needs of the customer. It is a significant undertaking.

Getting Behind the Cliche

If one lesson were to be taken from this thesis, it would be to recognize the comprehensiveness of quality improvement. To achieve good customer service, firms must "get behind" the cliche of "quality service" and approach the problem in a thorough and rigorous fashion, recognizing the implications and costs involved. To be successful, firms must cultivate an internal commitment to quality, develop the ability to learn about their customers and convert this learning into measurable, value-added services.

A recent four-year study of six corporate "change programs" showed that "most change programs don't work."\(^{185}\) Describing the "fallacy of programmatic change," the authors argue that "the greatest obstacle to revitalization is the idea that it comes about through companywide change programs..."\(^{186}\) Like Ishikawa, the authors suggest that senior management "direct a


\(^{186}\) Ibid.
nondirective change process" that involves line managers in identifying problems, goals, and solutions. With the involvement of line managers comes practical insight, and more importantly, their commitment to change. Only with this "shared vision" will meaningful change occur.\textsuperscript{187}

Asset management organizations must face a very basic obstacle to developing the "shared vision": coming to grips with what service means. Gloria Schuck, a teacher of management at the Massachusetts Institute of Technology, suggests that in order to grasp the scale of the change, one must look to the broader definition of service: "to serve."\textsuperscript{188} Words like "servitude", "servile", and "servant" share the same root. In American culture, these are not concepts readily associated with bright, ambitious MBA's, yet they reflect part of the customer dynamic embodied in the asset management dynamic. Overcoming the reticence of "serving" tenants is a key part of developing the quality ethic.

Developing the shared vision means building a commitment to quality in each employee. Both Capital and ABC appear to be successful at inculcating the quality ethic, but for different reasons. Capital's Vice President of Asset Management was in the unique position of being able to (and perhaps even expected to) replace the majority of the staff upon assuming the post. Hence, there was less organizational inertia to overcome since new employees were hired because they were willing to "share the vision." Capital's quality orientation is less a change program than a founding principal. The ability of the organization to adapt remains unknown.

By contrast, ABC is changing. Their success reflects many of the principles outlined above; the quality ethic is a joint endeavor between senior management and line managers. The implementation is easier owing to the

\textsuperscript{187}Ibid.

\textsuperscript{188}Gloria Schuck, Lecturer, Department of Urban Studies and Planning, Massachusetts Institute of Technology, conversation with author, 23 July 1991.
small number of individuals involved, but the process of change depends heavily on input from line managers.

With company-wide commitment, quality service becomes possible; without it, the customer suffers. To illustrate the former, one need look no farther than Capital's property coordinator who had internalized a response time standard as a measure of quality. The latter is reflected in the comments of a fee manager not employed by Capital or ABC:

On the retail side [as opposed to office or industrial], service is less important: sales are what matters. If a tenant is doing well, they will renew; if not, they're gone. The important thing [for retail property management] is leasing. 189

While these comments may reflect the experience of real estate management in the past, they do not show the same type of quality commitment held by Capital and ABC.

To successfully improve the quality of service delivered to tenants requires that an asset management organization cultivate a quality ethic throughout the service-delivery chain. The janitor, the president, and those in between must share a commitment to delivering the highest quality service possible. Within this environment, quality can flourish.

"Believing" is only the beginning. Once asset management organizations begin developing a "quality culture," they must orient their operations and train their staffs so that customer needs can be identified. As Chapters 2 and 3 state, the whole process hinges on customer needs. Learning about customers must become a major focus.

Information about customers needs an easy path to follow into the organization. Contact between the asset management firm and its tenants provides the opportunity for the firm to learn about its customers, gain a

189 Property manager employed by an absentee owner, interviewed by author, 16 July 1991.
better understanding of how the customer's business operates, and acquire the information required to identify customer needs. Asset management firms should refine this "intelligence gathering" capability by encouraging contact with tenants.

Different organizations can develop their customer antennae to suit their individual organizations. For a firm like Capital that uses in-house property management, multiple relationships might make sense. The property manager and a tenant's facilities manager could be one contact point, and Capital's asset manager and the tenant's real estate department could be a second. For a firm like ABC that subcontracts property management, ABC's asset manager could interface with the tenant's real estate decision maker and also gain input via the property manager's contact with the tenant.

Contact alone will not guarantee that the organization learns more about its tenants. Extracting information is a skill, and making the information accessible within an organization maximizes its usefulness. Managers who come in contact with tenants may benefit from training in what academics call "field research techniques" -- the art of asking questions to gain information. By developing these skills, managers will increase the quality of each contact and improve their effectiveness in learning about their customers.

One asset management organization that was not part of this study recognized the need for gathering information about their tenants. In a memo to their third party property managers, the head of asset management wrote:

A major part of your responsibility as property manager is to be our first line of communication with our tenants. As such, you must understand the nature of each of our tenant’s businesses, their concern, and the external pressures shaping their plans for the future. 190

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190 Senior Vice President of a real estate advisory firm, interviewed by author,
Attached to the memo was a list of questions for the property manager to ask as part of an informal information gathering visit scheduled with each tenant. The list included questions about the tenant’s use of the leased space; the nature of its business, corporate structure, competition, and strategic plans; and several other open ended probes designed to gain insight.\footnote{191}

Apart from gathering information, organizations must make the most of what they learn. For the firm to accurately implement its service goals, it must have access to tenant information that its managers gather. By developing systems to share tenant information freely within the organization, firms can leverage the efforts of front-line managers into greater benefits.

Another benefit from developing an information sharing system is continuity. A frequently heard complaint from tenants was turnover on the part of the asset or property manager. By developing systems for sharing information within the organization (and between selected subcontractors), new asset managers could "get up to speed" faster and reduce the impact of a change in personnel.

An asset management organization that has a company-wide quality ethic and the skills to learn about their customers is properly prepared to begin improving the quality of service it offers. As Chapters 2 and 3 described, the effort must be comprehensive and be incorporated into most (if not all) facets of the business. The key elements are converting customer "intelligence" into meaningful standards, creating the capability to measure these standards, and institutionalizing these standards.

Companies create value by converting customer needs into a product or service that the customer is willing to purchase at a price that generates a profit for the producer; asset management firms are no different. The critical

\footnote{18 June 1991.}

\footnote{Ibid.}
talent asset management organizations require is the ability to take what they have learned about their tenants and convert this understanding into standards. Tenants want "responsiveness." Does this mean time?...Results?...Caring managers? What standard is appropriate? A maximum of ten minutes before a call back?...100% resolution of every problem?...A "10" rating in the "caring" category for every asset manager? These are the questions that firms must grapple with in setting quality standards.

An intrinsic part of the standard setting is measurement. Just as firms do not leave profits unquantified, they need to measure quality as well. Asset management organizations should develop objective measurements that gauge their service performance. Understanding the customer need that underlies the quality standard, these measures must closely approximate the "true quality characteristic" they seek to gauge. The ability to measure success is essential to achieving results.

Finally, firms must institutionalize their commitment to quality. The firm's standards and measurements should be incorporated into hiring profiles, employee bonuses and evaluations, subcontracts, training programs, and ultimately into tenant marketing efforts. By incorporating the standards throughout the organization, the commitment to quality is constantly emphasized (and rewarded) and serves to redouble the firm's quality ethic - - the company begins to stand for quality.

Quality is an interdependent phenomena that firm can only achieve by implementing a comprehensive approach. Organizations must believe in providing the absolute best service to their customers, and this commitment must encompass each member of the firm. To implement quality requires the organization to learn about its customers and convert this knowledge to meaningful service standards that are measurable. These standards must be institutionalized and woven into the organizations fabric at every opportunity. The change must be thorough and comprehensive.

As the asset management industry begins setting out to improve the quality of its service, it must appreciate the scale of the task. The firms
studied in this thesis have spent much time, money, and effort to reach their current stages. Changing the way an industry has conducted business since the onset of private property is no small task, and those seeking to do so must be cognizant of the challenge that faces them. Only when an organization grasps the comprehensiveness of quality will it get behind the cliche and really perform.
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