Strategic Benchmarking in Corporate Real Estate

by

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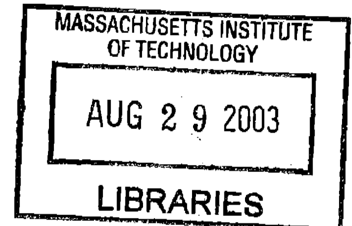

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abstract

This work examines the strategically focused benchmarking of corporate real estate units and the implementation of its results towards broadening their mandates. To illustrate how benchmarking of corporate real estate can add strategic value to an enterprise, this thesis presents data gathered through interviews with industry practitioners actively engaged in benchmarking practices.

As the corporate environment becomes increasingly competitive with a trend towards customer/market driven focus, corporate real estate departments are being elevated and gaining visibility within the firm. In response to the changing demands of business, they are becoming more proactive and shifting from the tactical project management to strategic portfolio and workplace management.

When corporations recognize that CRE units can add measurable value, they become an integral part of the strategic-decision making process. To this end, corporate real estate organizations have been participating in strategic benchmarking, through initiatives designed to examine their real estate performance in formal studies with peer companies. They have come to appreciate the benefits of the benchmarking process and recognize its limitations. But, most importantly, benchmarking has become an integral part of their research and strategic planning efforts, and an essential tool to help them achieve the competitive edge they are after.

Thesis supervisor: Sandra Lambert
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chapter ONE Introduction

• Issue and Context Overview

The purpose of this thesis is to examine how companies can use benchmarking to align their corporate real estate strategy with their business units' objectives and overall corporate strategy. Specifically this paper will examine strategically focused benchmarking carried out by corporate real estate units and implementation of their results.

Corporate real estate assets in the US are estimated to exceed $3trillion, with real estate representing about 25% of a typical corporation's assets, according to the International Association of Corporate Real Estate Executives[1].

In 1993, corporate real estate was identified by Joroff et al. as the fifth corporate resource[2], after capital, people, technology and information. He found it a powerful resource: often the second most expensive cost after labor, a significant proportion of the asset base.

In the early 1990s, corporate real estate was a field in great transition, when a team of researchers, in collaboration with the IDRC members analysed the challenges CRE units faced and developed the five-stage model, relative to corporate real estate organizational development. The model (Refer to fig. 1.1) identified five stages through which the corporate real estate function often evolves – Taskmasters, who supply the corporation's physical space as requested; Controllers, who satisfy senior management's need to better understand and minimize real estate costs; Dealmakers, who solve real estate problems in ways that create financial value for the business units; Intrapreneurs, who operate as an internal real estate company, proposing real estate alternatives to the Business units that match those of the firm's competitors; and Business Strategist, who anticipate business trends, and monitor and measure their impacts. These units contribute to the value of the corporation as a whole by supporting the company's core competencies with real estate strategies that optimize business results[3].

As a result, it was found then, that "executives who were struggling to position their CRE units effectively in corporations, as well as those who were successful at becoming a new resource to internal customers faced extraordinary challenges."

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[1] O'Mara, M. (1999): Strategy and Place: Managing Corporate Real Estate and Facilities for Competitive Advantage. The Free Press. P.3.

[2] Joroff, Louargand, Lambert and Becker (1993): *Strategic management of the Fifth resource.* Corporate Real Estate, IDRC.

[3] As defined by Lambert, Poteete & Waltch (1995): *Generating High-Performance Corporate Real Estate Service.* IDRC Corporate Real Estate 2000.

Corporate Real Estate Functions

Levels of Corporate Real Estate[8]	Function	Strategic Management Application
Taskmaster	Procure cost-efficient facilities	Efficiency
Controller	Standardize space needs to minimize facility occupancy costs	Standardization
Dealmaker	Creative space-needs, problem-solving and negotiation re specific assets	Transactional
Intrepreneur	Provide real estate services as a competitive service provider	Profit Center
Business Strategist	Integrate workforce, workplace and technology trends into overall business strategy	Strategic

Figure 2.1 The 5 stages model. (Developed by Lambert, Poteete & Waltch (1995): *Generating High-Performance Corporate Real Estate Service.* IDRC Corporate Real Estate 2000.)

According to Weatherhead, a summary of US literature about *Corporate Real Estate* published in 1996 shows that decisions concerning corporate real estate assets have a significant effect on the value of a business[4]. Real Estate decisions, the author concluded, need to be consistent with the overall corporate strategic plan and those making such decisions, need to be aware of empirical evidence indicating the financial market's reaction to real estate decisions[5].

Furthermore, as identified by Acoba and Foster, in a more recent study, entitled Aligning Corporate Real Estate with Evolving Corporate Missions, a key to successful integration of all corporate real estate elements is engaging in a strategic planning process that not only aligns the facilities infrastructure with the core business, but also drives CRE organizational initiatives, relative to process, people and enabling systems[6]. Corporations have been recognizing the potential CRE holds to add value, and thus are dedicating resources to aligning the real estate mission, with the business strategies of the firm. Only when CRE teams fully understand and advocate for the lines of business can alignment occur. Along this line, the CRE department will have to be an integral part of the management of the company, rather than a non-core service to the business units.

Although today, the economic and competitive environment has contributed to the recognition of CRE units' importance and role within the corporation, and the tendency to become a proactive player in the firm has become much more widely recognized, some CRE units are still struggling to heighten their visibility and broaden their role. The corporate real estate field is still in great transition, although the challenges changed. To this end, corporate real estate departments in Corporate America, have been

[4] Rodriguez and Sirmans, 1996
[5] Weatherhead, Marion (1997): *Real Estate in Corporate Strategy.* Macmillan. P.6
[6] Acoba, Fransisco and Foster Scott, Dec. 2002: Aligning Corporate Real Estate with evolving corporate missions: Process-based management models. Journal of Corporate Real Estate, Vol. 5, no.2.

experimenting with benchmarking, and thus, have been benchmarking aspects of their real estate performance in formal studies with peer companies. They have come to appreciate the benefits of the process and recognize its limitations. But most importantly, it has become more and more, an integral part of their research and strategic planning efforts.

Benchmarking is a continuous search for and application of significantly better practices that leads to superior competitive performance[7]. Benchmarking can take two forms. Internal benchmarking studies the processes and performance within the client organization; and external benchmarking compares the performance of the firm to that of other, preferably world-class, industry leaders. For the past 15 years, corporations in all industry sectors have conducted both forms of benchmarking and the benchmarking practice has evolved from being an operational tool to being a strategic tool essential for continuous improvement.

The financial services industry provides a case in point. It is a dynamic industry and has witnessed since the early 1990s, evolutionary change due to tremendous competition, overcapacity within the industry, deregulation, and stock market scrutiny. In response to these challenges, financial companies have changed the way they do business, striving to be more innovative, customer-oriented, and cost-efficient. In fact, the efficiency ratio, which measures a bank's non-interest expense as a percentage of its net revenue, became the new standard tool used by bank analysts and shareholders to assess the effectiveness of bank management. This is when a new trend emerged towards reengineering business processes as well as implementing new technologies in an effort to achieve greater efficiency[8].

In many countries, the pace of industry change in financial services has been dramatic, as financial service industries worldwide are becoming increasingly interrelated[9]. This is due to reported trends such as: blurring of industry boundaries – as in the case with Auto Finance Companies entering the financial services business, like General Motors Acceptance Corporation (GMAC) and Chrysler Credit-; deregulation – in Canada, the Free Trade agreement with the USA (89) and Mexico (93) have generated mass opportunities –; globalization – through alliances and consolidation with overseas companies in order to have quicker access to global markets, and a faster organizational learning than a got-it-alone approach-. Driven by the need to create and exploit economies of scale, most growing financial markets eventually consolidate. The quest for scale and efficiency has certainly generated lots of mergers.
On the other hand, information technology has been recognized as a key enabler of change.

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[7] Watson, Gregory H. (1993): Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley and Sons.
[8] Palefsky, Sandra Lee Wolf: *New paradigm for CRE units in the Commercial banking industry.* Thesis (M.S.), Massachusetts Institute of Technology, Dept. of Urban Studies and Planning
[9] Drew, Stephen A.W.: *Strategic benchmarking; Innovation practices in financial institutions.* International Journal of bank marketing vol.13, no.1. Pp.4-16.

A fundamental rethinking of workflows is resulting in new ways of doing business, but that change is expensive. The silver lining of this challenge is that rethinking workflows enables firms to fully exploit the benefits of technology. It is a golden opportunity to make operations dramatically less expensive.
The specialisation of finance goes hand in hand with consolidation and concentration. In the 1980s, there were 20 substantial credit card processors; today, there are five huge ones.
Furthermore, the increased degree of automation and faster transaction cycles mean that problems anywhere on the network make the whole system more vulnerable. Automation reduces flexibility in responding to emergencies and allows errors to propagate much faster.
As planning for contingencies on the network, without much redundancy becomes critical, so does an increased flexibility and sophistication of workplaces and real estate facilities.
These technology-driven issues will continue to evolve the structure of the financial industry in the future, and they create new risk management challenges for managers, regulators and CRE officers.
For financial services companies to prosper in a highly competitive environment every segment of the corporation must add value – and real estate is no exception. Creating value requires the effective deployment of existing physical and human assets as well as continuous search for improvement.

Turbulent industry conditions are accompanied by many attempts at radical organizational change. Advocates of business process re-engineering and/or strategy regeneration[10], recommend the use of Benchmarking to establish "best practices" in an industry before embarking on a major change project. Benchmarking has been defined by the American Productivity and Quality Center (1992) as:
... a systematic and continuous measurement process; a process of continuously measuring and comparing an organization's business processes against business process leaders anywhere in the world to gain information which will help the organization to take action to improve its performance. Benchmarking often crosses industry boundaries in search of 'break-through' improvements.

To illustrate how benchmarking of their corporate real estate can support the strategies of business units and corporations, this thesis presents data gathered through interviews with industry practitioner principally in financial services, actively engaged in benchmarking practices and weighs the value and potential of benchmarking in helping them achieve this transition.

- Methodology

A literary review of relevant research on benchmarking and corporate real estate provided a framework and key concepts for analyzing activities at the functional level of the firm. Interviews of industry practitioners provided data specific to the corporate real estate function and contacts with ten corporate real estate executives and unit managers, in the US. All respondents have management responsibilities,

[10] Hamel and Prahalad (1993): *Competing for the future Managing Global Real Estate*. IDRC Corporate Real Estate.

including benchmarking practices in the CRE units: Six from financial services institutions, one from an insurance company, two top high-tech companies, and one from a governmental institution with a large portfolio that does a lot of benchmarking with private companies as well. Confidentiality of firm name and individual views were respected.

Interviews focused on the nature of benchmarking practices these CRE units carry out, the value of benchmarking to their department and company, the use of its results and implementation towards strategic planning at the level of their unit and at the level of the firm. Valuable insights were provided on both the benefits and limitations of benchmarking.

- Chapter Overview

  - Chapter two

Chapter two discusses corporate strategy and provides an overview of theories relevant at all three levels of the firm. It also establishes the link between strategy and measurement, and explains how measurement plays an important role in the implementation of corporate strategy. Finally, chapter two emphasizes the importance of both financial and non-financial metrics that measure the performance of real estate portfolios, and explains that they have a significant but indirect impact on the bottom-line of the firm.

  - Chapter three

Chapter three takes an in-depth look at the process of benchmarking and sets forth the different models and types of benchmarking that were developed over the past 15 years. It explains how benchmarking is applied and presents its observed benefits and limitations. Benchmarking seems to be gaining gradually more importance on the strategic level, and thus the chapter also discusses how benchmarking carried out by corporate support function can enhance business unit and corporate strategy.

  - Chapter four

Chapter four puts the benchmarking process in the context of corporate real estate and describes its relevance. It compiles and presents the data collected through the interviews with industry practitioners, explaining how corporate real estate units benchmark, why and what data they gather in the process. It identifies benefits and limitations of the practice as it has become more strategically focused.

  - Chapter five

Finally, chapter six concludes and analyzes the evolution of strategic benchmarking within corporate real estate units.

chapter TWO Strategy

• Literary work on strategy

Since the early 1980s, the literary work about corporate strategy has been quite dominated by the contributions of Michael Porter. Porter focuses on the competition within industries, taking for granted rigid industry boundaries, and explains that competitive advantage of firms mainly grows out of its ability to create value for the customer that exceeds its cost of creating that value[11]. In the 1990s, Hamel and Prahalad have been very influential with their idea of intellectual leadership as the most significant aspect a company's strategy. They argue that creating the future of a firm and its industry, through strategy regeneration is more challenging than evaluating and restructuring the past through what they refer to as strategy reengineering[12].

More recently, the approach being promoted by Hax provides a more comprehensive framework that acknowledges the theories developed by Porter and by Hamel and Prahalad and pushes corporate strategy one step further, through the *Delta Project*[13]. Hax emphasizes the concept of bonding with customers as a central force in shaping strategy and claims that a pure focus on product supremacy is obsolete. Hax suggests that new driving forces are enabled through the emergence of a networked economy and the primary force driving profitability is bonding with customers.

Most strategy scholars have given little thought to real estate, at least not explicitly. In Porter's work, real estate is considered a support function and includes it in the procurement function within a firm's value chain (see fig. 2.1). In Prahalad and Hamel's work, as well as Hax's, it is part of the firm's infrastructure, and thus is a support function too. Applying these different perspectives on strategy to real estate is plausible, given the emerging trend for corporate real estate to be viewed as an integral part of operational strategy.

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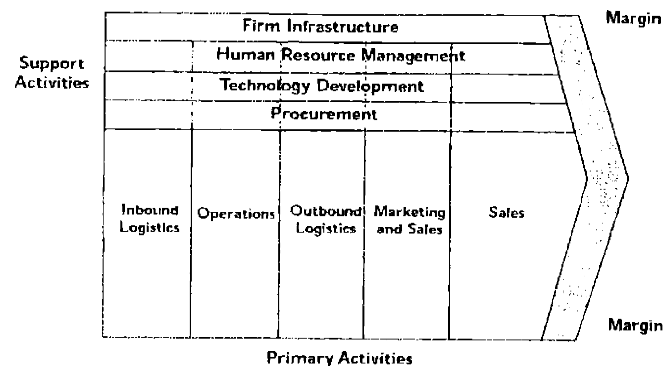
[11] Porter, Michael (1985): Competitive Advantage: Creating and sustaining superior performance. Free Press.
[12] Hamel and Prahalad (2000): *Competing for the future Managing Global Real Estate*. IDRC Corporate Real Estate.
[13] Hax, Arnoldo (2001): The Delta project: discovering new sources of profitability in a networked economy. Palgrave.



Porter's value chain

Source: Michael E. Porter, Competitive Advantage, New York: Free Press (1985)

Figure 2.1

- Definition of Strategy

Prahalad and Hamel argue that strategy shapes the future of the firm, thus strategy ultimately takes the form of objectives and action plans set out to shape the way in which the organization will change. While others argue that strategy is a pattern in a stream of decisions, thus a pattern of actions emerging from the past decisions of the firm, reflecting consistency in behavior, whether or not intended[14]. According to Hax, in his early writings about strategy and process, it is useful to separate the concept of strategy from the process of strategy formation[15]. By concept of strategy, he means its content. Hax proposes a more comprehensive definition of strategy than most scholars, which is:

1. A coherent unifying and integrative pattern of decisions;
2. Determines and reveals the organizational purpose in terms of long-term objectives, action programs, and resource allocation priorities;
3. selects the businesses the organization is in or is to be in;
4. Attempts to achieve a long-term sustainable advantage in each of its businesses, by responding properly to the opportunities and threats in the firm's environment, and the strengths and weaknesses of the organization;
5. Engages all hierarchical levels of the firm (corporate, business, functional)[16]; and
6. Defines the nature of the economic and non-economic contributions it intends to make to its stakeholders.

[14] Mintzberg, Henry: "Patterns in strategy formation". Management Science, 1976. pp. 934-948.
[15] Hax, Arnoldo (1996): *The Strategy Concept and Process: a Pragmatic Approach*. Prentice Hall.
[16] 'The three levels of strategy' have been recognized by many authors in this field primarily: K.A. Andrews in the *Concept of strategy*, H. Igor Asnoff in *Corporate strategy*; G. A. Steiner and J. B. Miner in *Management policy and strategy*; etc... (will be tackled again later)

Thus Hax provides unifying point of view that embeds both Porter's resource allocation and five forces models of strategy and Hamel and Prahalad's resource leverage model. Strategy becomes a fundamental framework through which an organization can assert its leadership, at the same time it forcefully adapts to a changing environment. According to Hax, the ultimate objective of strategy should be to address the stakeholders' benefits (shareholders, customers, employees) and to provide a base for establishing the host of transactions and social contract that links the firm to its stakeholders[17].

- Process of Strategy Formation

  - Core Competence

In Hamel and Prahalad's research, the idea of core competence is closely tied to a company's strategic intent and the process of strategy formation: "Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies."[18] According to the authors, core competencies are not visible to other companies. They observe that few companies will develop more than five or six core competencies. They help to make this concept more pragmatic by providing three tests for a core competence:

1. It provides potential access to a wide variety of markets.
2. It makes a significant contribution to the perceived customer benefit of the product
3. It should be difficult for a competitor to imitate.[19]

Not surprisingly, these tests focus on a technology-driven definition of a core competence, key in most industries and companies today.

Often the most basic sense of corporate identity is built around market-focused entities, called strategic Business units, rather than around Core competencies. However, to achieve competitive advantage, a firm needs to identify, build and capitalize on its competencies. Therefore the authors suggest five competence management tasks[20]:

1. Management needs to identify existing core competencies, gaining consensus within the company ranks, sharing their view, and understanding what they do well. Core competencies are the connective tissue that holds together a portfolio of seemingly diverse businesses. Core competencies are the lingua franca that allows managers to translate insights and experience from one business setting into another. Core competence-based diversification reduces risk and investment and increases opportunities for transferring learning and best practices across business units.

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[17] Hax, Arnoldo (1996): *The Strategy Concept and Process: a Pragmatic Approach*. Prentice Hall.
[18] Hamel and Prahalad: The Core Competence of the Corporation. P.82
[19] Ibid. p.83-84
[20] Hamel and Prahalad (2000): *Competing for the future Managing Global Real Estate*. IDRC Corporate Real Estate P.245-259

2. Establishing a core competence acquisition agenda. And that's basically identifying opportunities that don't fall within the product-market purview of existing business units. Opportunities to extend existing core competencies into new product markets by recognizing and developing them through an advanced process of coordination and synergy creation between Business units.
3. Building core competencies and sustaining that effort consistently over a long period of time is key. Building world leadership in a core competence area may take five, ten or more years, and deep consensus about which competence to build and support, as well as stability of the management team charged with competence development becoming critical in exploring that potential to its maturity.
4. Deploying core competencies, in terms of allocating human capital across the company, exchanging ideas, and learning are all intangible assets that get less attention that capital allocation or example. The mobility and distribution and exploration of these intangible competencies or potentials, accelerates the process of competence-building.
5. And finally, protecting and defending core competence leadership is extremely important and losing it is extremely easy. Losing track of the intangibles, by focusing on the tangibles within the company (capital, underperforming business, etc...), especially in times of crisis may dilute the competence-building effort and waste it.

As was mentioned earlier, strategy is a projection into the future, based on the present. It is in reality identifying the organization's strengths, building on them and carrying them into the future, on solid ground, so it can lead the way. To do that, Prahalad and Hamel even suggest identifying potentials within the industry and pushing them forward to redraw the boundaries between industries and/or create entirely new industries. And core competencies could be the drivers. It is notable that Hax's definition of strategy, supports the idea of strategic intent that Hamel and Prahalad set forth, when he refers to the attempt to achieve a long-term sustainable advantage, a persistence of a vision.

- Strategy regeneration

In the early 1990s, efficiency and cost dominated concerns of growth. Businesses were witnessing tremendous competition, overcapacity within the financial industry, deregulation, and stock market scrutiny. The key to survival for most corporations was becoming more efficient. Significant consolidation was one of the business strategies widely used in this changing business environment. Major organizational transformations included downsizing, restructuring, overhead reduction and process redesign.

As Hamel and Prahalad argue, the social costs of restructuring are high and restructuring seldom results in fundamental improvements in the business[21]. It results most of the time in laying offs employees, addressing concerns about productivity, but also reducing overhead. These authors argue that simply

[21] Hamel and Prahalad (2000): *Competing for the future Managing Global Real Estate.* IDRC Corporate Real Estate.

getting smaller is not enough, however, reducing unnecessary costs and restructuring the business processes, and in other words, reengineering could be beneficial. Reengineering aims to root out needless work and get every process in the company pointed in the direction of customer satisfaction, reduced cycle time, and total quality, in Hamel and Prahalad's words. Moreover what is even more relevant is their expanded argument that a company must also be capable of reengineering its industry. Inventing new industries and reinventing old ones is a prerequisite for getting to the future first and a precondition for staying out in front. The reason why this point is important is because this research focuses on strategy regeneration and industry reengineering as a consequence of strategic benchmarking[22] carried out by the corporate real estate function.
Prahalad and Hamel emphasize the need for strategic benchmarking:

> Creating the future is more challenging than playing catch up, in that you have to create your own roadmap. The goal is not simply to benchmark a competitor's products and processes and imitate its methods, but to develop an independent point of view about tomorrow's opportunities and how to exploit them. Path breaking is a lot more rewarding than benchmarking. One doesn't get to the future first by letting someone else blaze the trail.

A key point is that one can use benchmarking to become knowledgeable about industry best practices, to identify examples of cross-industry high performance, and to use this information to draw one's own roadmap.
To get to the future first, to gain a competitive edge and become a leader, according to Hamel and Prahalad, four things are required:

1. An understanding of how the company for the future is different.
2. a process for finding and gaining insight into tomorrow's opportunities
3. an ability to energize the company top-to-bottom for what could be a long and arduous journey
4. A capacity to outrun the competitors and get to the future first without taking undue risks.

Undoubtedly, to achieve that, insight into the processes and practices of peer companies and competitors is crucial; a sense of challenge and motivation to outrun the competition must prevail, at all levels and in all segments of the company; and a clear and well-structured vision and direction must lead.

The Delta Model supports the importance of a link between strategy and measurement[23]. As previously discussed, according to Hax, the major driver in shaping strategy is the concept of bonding, placing the customer at the center of management and strategy. Hax sets forth a comprehensive framework that embeds Porter's competitive positioning framework as well as Hamel and Prahalad's resource-based

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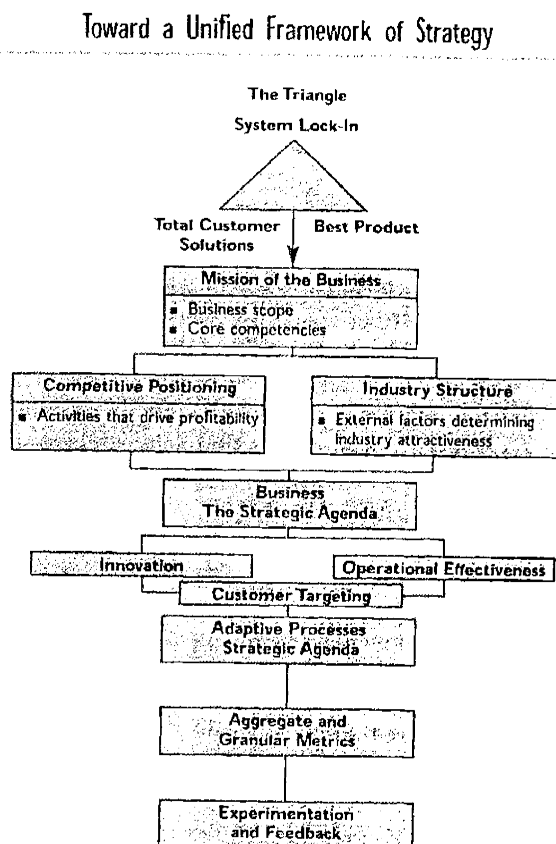
[22] See Chapter 3, under Strategic Benchmarking.
[23] Hax, Arnoldo (2001): The Delta project: discovering new sources of profitability in a networked economy. Palgrave.

view. He claims that the Delta model "serves as a unifying framework that starts with a vision statement that captures the essence of how the business positions itself and culminates with the tactical means to adapt continuously to an ever-changing environment."[24]

According to Hax, organizations can not follow a rigid, pre-determined formula in running their businesses and expect to succeed. The competitiveness of that milieu, and the speed of change to which all corporations are subjected, require "a well-designed integrative strategy, [that] provides a coherence of action throughout the business, [and] that connects decisions in the boardroom, with behaviours in the field." And Hax proposes the Delta project, as that integrative process for formulating and executing strategy[25].

The Delta project offers four contributions essential for addressing the new economy. The four contributions are the Triangle, Adaptive processes, Aggregate metrics, and Granular metrics and feedback. (Refer to fig. 2.2)

Figure 2.2 The Delta Project – a unified framework



The Delta Model – an integrative strategic framework

[24] Ibid. P.258
[25] Ibid.

The Triangle represented by the Delta, means transformation. It represents three distinct strategic options that offer three different approaches to achieve customer bonding[26].

1. The *Best Product* (BP) positioning, building on Porter's model of product-based competitive positioning. In this approach, the customer is attracted by the inherent qualities of the product itself.
2. The *Total Customer Solutions* (TCS) strategy, which is the complete opposite of the Best product approach, and seeks to provide a coherent composition of products and services aimed at enhancing a customer's ability to create their own economic value. This approach builds on Porter's supply chain and links it to its customers and suppliers.
3. The *System Lock-in* (SLI) strategic option, which not only includes the enterprise, the customers, and suppliers but also the *complementors.* A complementor is a firm engaged in the delivery of products and services which enhance a company's own products and service portfolio. They are typically external, but may be internal to the corporation, and thus the overall system supply chain is involved, not only the supply chain of the product. Microsoft is one example. Computer users are compelled to purchase the Microsoft's Windows operating system, because it has the widest selection of software applications[27].

The triangle expands potential sources of profitability to describe those three choices for strategic positioning.

The adaptive process, on the other hand, emphasizes the need to genuinely link strategy and execution. To do that, Hax's research identifies three business processes that capture the essential tasks of execution: 1) Operational effectiveness, the production and delivery of goods and services; 2) Customer targeting, the management of the customer interface; and 3) Innovation, the process of new product development. Thus, the adaptive process defines each process in relation to the three approaches of the Triangle, in order to translate strategy from a vision to a more actionable level.

The Aggregate Metrics, however, are concerned once again with measurement of strategies in order to ensure success. According to Hax, and other scholars, performance measurements are essential for the development, execution, and evaluation of a desired strategy. The delta model uses two different metric systems and aligns them with the strategic options selected, based on the *Adaptive process.*

While *Aggregate Metrics* measure the performance of the businesses and the firm as a whole, *Granular Metrics* set out to measure the drivers of such performance. Again in support of an earlier claim, Hax recognizes that financial measures, such as return on equity (ROE), return on assets (ROA), etc... are a manifestation of past performance, and are poor predictors of future performance. Therefore, Hax's aggregate metrics inherent to the adaptive process are forward-looking, stand in contrast to the conventional measures of success. They reflect the top line performance of execution. Moreover, granular

[26] Ibid. p. 10-11

[27] For further explanation, see Hax, Arnoldo (2001): The Delta project: discovering new sources of profitability in a networked economy. Palgrave. P.11-12.

metrics are necessary to understand performance drivers that, according to Hax, emerge at the intersection of the three dimensions highlighted in the Delta model: product, customer, and complementor and are indicators of future performance. In addition to feedback, they enable a customized response at a customer and complementor specific level, which is also critical to secure bonding.
Thus, the delta model appears to support Hamel and Prahalad's concept of strategy of the future, by providing a framework for translating the vision, the strategic intent into action. Furthermore, Hax also agrees that measurement leads to profit and growth, by emphasizing both financial and non-financial indicators that contribute to the creation of value, and are directly correlated to overall financial performance. In Hax's words, the Delta Model "sets out to understand the future drivers of cost, revenue, profit, and innovation to achieve a full, comprehensive and well-balanced view of the business performance"[28].
Metrics are required to define performance, delineate accountability, monitor progress, and establish the feedback mechanisms necessary to change the course of action whenever this is needed.[29]

- 3 levels of strategy

Since the 1960s, many authors have recognized the need to address strategy on three levels within a firm[30]. These authors describe a concept involving three hierarchical levels essential for the formulation of any formal planning process: corporate, business and functional levels.
To facilitate the disciplined formulation of strategies at all three levels, Hax and Majluf developed a methodology, defining the corporate level as the level where the decisions with corporate-wide scope reside. Alternatively, at the business level, decisions are concerned with securing long-term competitive advantage in all the current businesses of the firm. Finally, the functional level not only addresses the functional demands of the business units, but also supports the development of the unique competences of the firm[31] (the core competences as defined by Hamel and Prahalad).
According to the vast majority of corporations in America, strategy is concentrated at the Business unit level. As a result, a lack of corporate vision and direction dilutes the unifying element of corporate leadership that consolidates the firm's operations and activities. Furthermore, Hax recognizes the fact that working with support functions, based on short term plans only, weakens the competitiveness of the firm. He considers these functions as centrally important and acknowledges the necessity of dealing with them strategically. Moreover, it is interesting to note Hax's definition of 'strategic'.

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[28] Ibid. p. 177
[29] Hax, Arnoldo (2001): The Delta project: discovering new sources of profitability in a networked economy. Palgrave. P.175
[30] Among the scholars who recognized the three levels of strategy were: H. Igor Asnoff in Corporate Strategy, 1965; Richard F. Vancil and Peter Lorange in "Strategic planning in diversified companies" Harvard Business review, 1977; and later, Arnoldo C. Hax and Nicolas S, Majluf, in Strategic management: an integrative perspective, 1984.
[31] Hax, Arnoldo (1996): *The Strategy Concept and Process : a Pragmatic Approach*. Prentice Hall. P.16.

> This means that we ought to have external intelligence to understand how competitors are deploying functional resources that will allow the firm to respond with the necessary functional skills to enhance its competitive position[32].

In these few words, Hax suggests the importance of benchmarking performed by key support functions to achieve competitiveness for the firm.

Like other scholars, however, Hax identifies finance, human resources, procurement, production, and marketing as the principal managerial functions with which firms need to be concerned, and in Michael Porter's wheel of strategy (see fig. 2.3) – Harvard Business School diagnostic framework, that was used for many years as a checklist for assessing fit between a strategy and the organizational resources that must be marshalled to implement the strategy[33], neither real estate nor facilities appear in either authors work.

Figure 2.3 The Wheel of Strategy – Michael Porter

In 1993, an MIT study found that the mandate and service strategy of a corporate real estate unit, not its reporting structure, were the key determinants for its ability to contribute strategic value to the firm. In

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[32] Ibid.

[33] O'Mara, M. (1999): Strategy and Place: Managing Corporate Real Estate and Facilities for Competitive Advantage. The Free Press. P.194.

contrast to early reporting, strategy models, some of the most strategic initiatives were found in CRE units reporting to Human Resources rather than Legal, Engineering or even Finance[34].

- Fitting measurement to strategy

Important questions for managers are how often corporate-wide measurements should be carried out and whether they should become part of a continuous process. To be effective and play a strategic role in the organization, measurements should become part of corporate strategy formation and business unit plans. Therefore, it is evident that a measurement process, its form, content and frequency should be adapted to the particular business in question and its business strategies. Certainly, corporations are ultimately interested in measuring their financial performance in terms of profits and growth. But most important are those dimensions that are critical to the achievement of financial success, whether it is customer loyalty and satisfaction or the quality of the service and product being delivered, or employee morale, productivity and satisfaction. Several scholars argue that as long as these contribute to the creation of value and the delivery of quality, then they are directly correlated to financial performance and success[35]. Real Estate portfolio and workplace performance characteristics can be viewed as another layer of indirect contributors to the bottom line of the firm, and hence should be measured.

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[34] Lambert, Poteete & Waltch (1995): *Generating High-Performance Corporate Real Estate Service*. IDRC Corporate Real Estate 2000

[35] Hesket, James (1997): The Service profit chain: How leading companies link Profit & Growth to Loyalty, Satisfaction & Value. Free Press. P.36.

chapter THREE Benchmarking

In this chapter, benchmarking as a process will be explained in depth, highlighting different models identified in research conducted throughout the 1990s[36]. Several aspects of benchmarking will be discussed in detail, including 1) its benefits and limitations; 2) the objectives of different types of benchmarking; and 3) the role of benchmarking as a catalyst for changing business processes and enhancing superior performance. Finally benchmarking will be described as a strategic tool that has found its way into the corporate real estate function and has contributed to the enhancement of CRE unit's position within the firm.

• Benchmarking and performance measurement

Benchmarking is a comparative measurement process that provides a methodology to help organizations improve their performance within a wide range of activities. For more than a decade, corporations have adopted benchmarking in search for best practices, in response to fast-paced changing economic conditions. To this end, the *American Productivity and Quality Center* (APQC), based in Houston, Texas developed its own benchmarking methodology that includes examination of the ethical issues that might emerge from benchmarking practices among participants[37].

While a benchmark is a reference point in determining one's current position, it is also used as a starting point from which other measurements can be made, or against which others could be measured. In the 1980s, the notion of benchmarking grew in scope, and was then defined by various practitioners as follows[38]:

1. A process for rigorously measuring your performance versus the best-in-class companies and for using the analysis to meet or surpass the best-in-class[39].
2. Benchmarking is the search for the industry best practices that lead to superior performance.[40] And,
3. Benchmarking is a fundamental business skill that supports quality excellence[41].

By their nature, best practices are dynamic and progressive. Best practice champions, thus, regard benchmarking as an on-going business process that is fully integrated with continuous improvement in their organizations.

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[36] Among whom McNair, 1992; Watson, 1992 and 1993; Boxwell, 1994; and Bogan and English, 1994.
[37] APQC put in place a *Code of Ethics for Benchmarking*[37] that participants may choose to review and consider adopting.
[38] Bogan and English. P. 2
[39] Kaiser associates, a management consulting firm that has actively promoted Benchmarking.
[40] Robert C. Camp, a Xerox Corporation manager, author of *Benchmarking: the search for Industry Best Practices.*
[41] Bogan, Christopher and English: *Benchmarking for Best Practice.* Mc Graw-Hill, Inc.

In 1994, Bogan and English identified a rapidly advancing revolution in performance measurements, known as benchmarking. Today, this revolution is creating a new paradigm for how organizations manage and measure performance. According to the authors, four important shifts in perspective have helped to elevate the importance of benchmarking in this performance measurement revolution, and that's how they define them[42]. These shifts include:

1. 'What gets measured is what get managed and approved.' Organizations now, more than ever, recognize the importance of performance measurements or benchmarks in managing complex systems and processes.
2. Customer satisfaction has emerged as a strategic goal for many organizations worldwide.
3. Leading-edge managers recognize that many other non-financial benchmarks are useful in achieving total quality excellence within complex systems and processes. The growing scorecard of other non-financial benchmarks include measures of work process speed, quality, first-pass yields, employee turnover, reliability, productivity, innovation, training, employee involvement and learning.
4. Finally, the revolution in information technology places powerful computer hardware and software within the reach of virtually every organization. This technology enables organizations to inexpensively create, distribute, analyze, and store more data about their businesses, than ever before. All these data represent potential benchmarks and performance management indicators.

The authors emphasize the fact that any measurement that is systematically collected can be analyzed over time. By performing trend analyses of information, managers can transform mute data points into performance indicators that reflect the health and progress of individual processes and systems. Over time, they can use these indicators to position themselves in relation to their competitors and peers in the marketplace, through *Benchmarking.*

Benchmarking provides the basis for an improvement strategy by seeking comparisons between a corporation's current practices and world-class best practices that are independent of the industry in which they are observed. According to Watson[43], these comparisons and the performance improvements they spur can provide competitive advantage in one's industry.

The figure that follows provides an overview of the key terms involved in benchmarking.

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[42] Ibid. P.44-45.

[43] Watson, Gregory H. (1993): *Strategic benchmarking: How to rate your company's performance against the world's best.* J. Wiley and Sons, Inc.

Semantics

- *Practice* → a method or technique used to perform a process. How to perform a step within a process
- *Metric* → measure of process performance (e.g. cycle time, total time of process)
- *Enabler* → a condition or factor that influences the effectiveness of a practice.
- *Best practices* → those methods or techniques that result in increased customer satisfaction when incorporated into your operations.
- A *benchmarking process* is the set of steps used to discover and incorporate best practices into day-to-day operations.
- A *benchmarking system* is the infrastructure and organizational linkages necessary to deploy, reinforce, and institutionalize a benchmarking process.
- A *benchmarking consortium* is made up of organizations that have joined together to help each other perform some part of the benchmarking process. Often supported by electronic networks, the members share contacts for Benchmarking studies, assist in data collection, arrange for site visits, and share information regarding best benchmarking practices.
- A performance driver is a causal factor. It can be inherent to the environment, structural (imbedded in the current design of the organization), or performance-related (the result of the performance and processes carried out by the company).

Robert Damielo. The basics of benchmarking[44].

• Evolution of Benchmarking

▪ Background of Benchmarking

In the 1800s, the British textile manufacturing industry, which was absolutely the best in the world, inspired Francis Lowell, a New England industrialist, to upgrade business technology in the United States. Today this action is viewed as the first example of benchmarking. The mills technology was adopted from England, where much more sophisticated equipment was used, and adapted to the US, in less labor-intensive plants. It was a splendid example of innovative adaptation. In 1912, Henry Ford, learned from cutting meat processes in a slaughter house, and implemented the world's first assembly line at the Ford Motor Company. In the 1950s, Toyota adopted and adapted and improved procedures and processes observed at Ford, GM – in terms of technologies - and supermarkets – in terms of speed and precision in stocking-. As history recorded, these lessons learned, planted the seeds for what developed into Toyota's now famous jus-in-time total-quality control program. By 1983, Toyota had captured 23 percent of the US market. Following Toyota's breakthrough success, GM signed a joint venture with Toyota in order to learn about their winning strategies from them[45].

[44] Damelio, Robert (1995): *The Basics of Benchmarking.* Quality Resources.
[45] Bogan, Christopher and English: *Benchmarking for Best Practice.* Mc Graw-Hill, Inc

As Bogan and English put it, "Learning from borrowing from the best and adapting their approaches to fit your own needs are the essence of benchmarking."[46] These authors believe that by exposing organizations and people to new ideas and approaches, the benchmarking experience often spurs extraordinary insights and breakthrough thinking. It is interesting to note, however, that benchmarking was not widely used or embraced as a fundamental business process until the late 1980's and early 1990s. Since then it has been applied to all sorts of business processes and various other contexts.

- The starting points - the Xerox Experience[47]

In the early 1980s, benchmarking played a leading role in the revival of Xerox's fortunes. The graveness of the company's competitive situation was a wake-up call for senior management. To reposition their business, the company began to examine and learn from the experience of others. They learned from competitor's products, parts and components, as well as business processes. Competitive benchmarking started in 1979 in Xerox Manufacturing Operations. By 1983, it had become a fundamental business process across the company. In 1981, the company introduced cross-industry benchmarking, and learned for example about warehousing efficiency from L.L.Bean, Inc. In 1989, Xerox, a leader in the business process of benchmarking, won the Malcolm Baldrige National Quality Award, at which time it benchmarked more than 230 performance areas.

- Models and Types of Benchmarking

Benchmarking as described by various practitioners and authors was referred to as: "Stealing shamelessly" by Roger Milliken and "Adapt, don't adopt" by W. Edwards Deming. However, benchmarking is not simply copying what other companies are doing. As stated earlier, benchmarking is a continuous search for and application of significantly better practices that lead to a superior competitive performance[48].

Although benchmarking is a measurement process that results in comparative performance measures, it also reveals how exceptional performance can be attained. While several authors have defined benchmarking models differently, it is clear that most, if not all of these models are based on a 4-step model developed by Deming[49]. Also, they have identified various types of benchmarking, referring to the scope of benchmarking – McNair and Bogan and English-, and examined how different parties benefit from or contributes to the process (Boxwell).

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[46] Ibid. p.3
[47] Ibid. p.25-27
[48] Watson, Gregory H. (1993): *Strategic benchmarking: How to rate your company's performance against the world's best*. J. Wiley and Sons, Inc.
[49] The plan-do-check and act model. See fig. 3.2

- Benchmarking Models

In the early 1990s, a simple four-step model was being used by most companies that were seriously involved in benchmarking studies, including IBM, Xerox, Johnson & Johnson, Motorola and GE. Based on the four-step plan-do-check-act sequence, Watson suggested applying a six-step process for understanding and implementing process change. At that time, he suggested this updated model for integrating benchmarking into a company's planning process in an effort to use benchmarking more effectively as a tool for continuous business improvement.[50]. The model is presented in figure 3.1, to illustrate what each step represents in relation to the simple four steps.

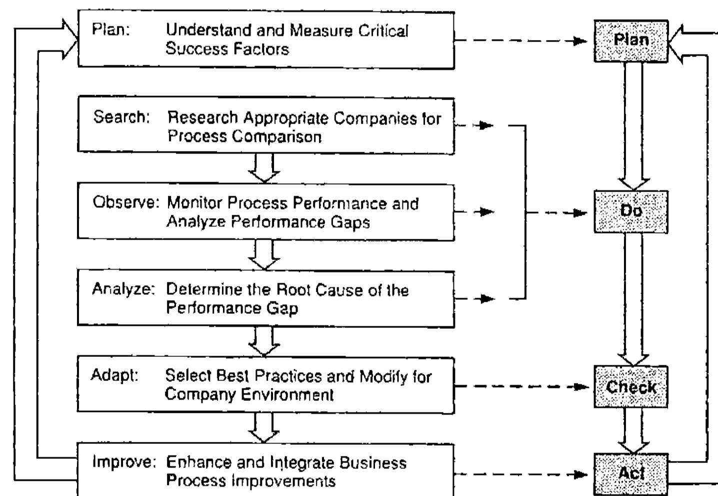

Figure 3.1 The 4 or 6-step model

In 1993, in his subsequent book on Strategic Benchmarking, Watson, reverted to a simple four-step approach on which the 6-step model was based. The four steps follow the fundamental Shewhart or Deming cycle: plan, do, check and act (see fig. 3.2).

In the first step, planning the benchmarking study involved selecting from and defining the process that is to be studied; identifying the measures of process performance; evaluating one's own capability at this process; and determining which other companies should be studied.

[50] Watson, Gregory H. (1992): *The Benchmarking Workbook: Adapting best practices for performance improvement*. Foreword by Carla O'Dell, Publisher's message by Norman Bodek. P.12

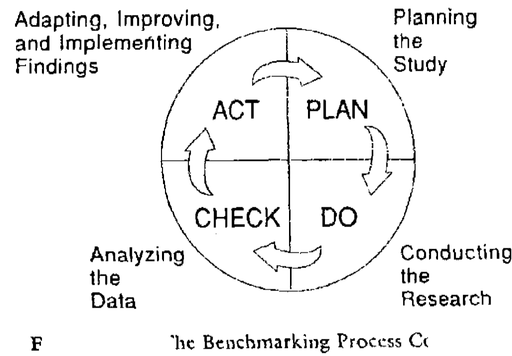

Figure 3.2 The 4-step model

The second step in benchmarking is to conduct research about the companies to be benchmarked, before contacting them. The third step is to analyze the information gathered to illuminate the study, findings and recommendations. The final step in benchmarking is to adapt improvements and implement the appropriate benchmark process enablers that were identified as the reasons behind the results. The objective of benchmarking is to change an organization in ways that enhances its performance. Thus, benchmarking is a process with a built-in bias for action[51].

According to Boxwell, in practice, benchmarking is about giving one's organization a competitive advantage and outperforming the competition. He presents a benchmarking process that can be applied to all business situations. His model[52] is more expanded and detailed than the Watson model; however, he believes that the methodology is simple (Refer to fig 3.3).

1. Determine which value activities in your organization are the activities where improvement will allow the business to gain the most through benchmarking.
2. Determine the key factors, or the drivers of these value activities.
3. Identify the companies with foremost practices in these value activities. These best practices may be found at competitors or companies from unrelated industries – any companies that perform the value activities extremely well.
4. Measure the foremost practices in terms that will allow one not only to quantify performance but also to understand why and how they achieve the results they do.
5. Measure one's own performance and compare it to the best.
6. Develop plans to meet and exceed the foremost practices or further one's lead, as the case may be.
7. Obtain commitment from all levels of the organization that are involved in the plan, made easier by the evidence provided by a sound benchmarking exercise.
8. And finally, implement the plan and monitor the results with a focus on continuous improvement.

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[51] Watson, Gregory H.: Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley & Sons, Inc.
[52] Boxwell, Robert Jr.(1994): *Benchmarking for competitive advantage*. Mc Graw-Hill.

Boxwell maintains that companies performing benchmarking exercises must be going through the whole process, including its final step. The last step is critical to benchmarking since it gives the company that competitive advantage it is looking for in order to outperform competition.
Nevertheless, there are many ways to practice benchmarking, and most companies that institutionalized benchmarking, tailored the basic process to meet their specific needs. And this is certainly how benchmarking models are evolving. The Xerox example is interesting in this regard (Refer to figure 3.4, for a 6-step benchmarking model as adopted by Xerox in 1989).

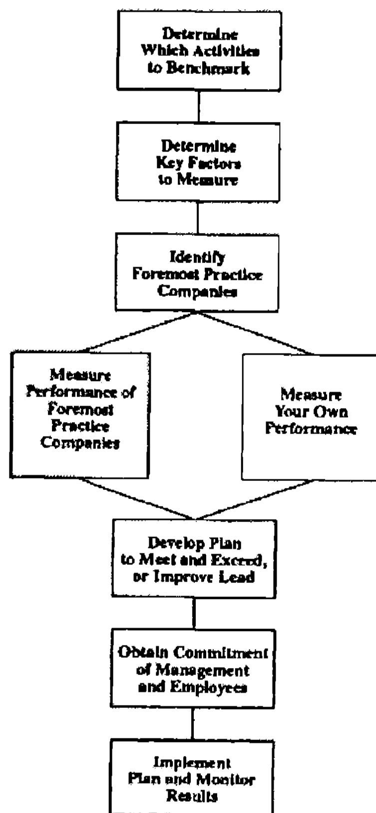

Figure 3.3 The 8-step model (Boxwell)

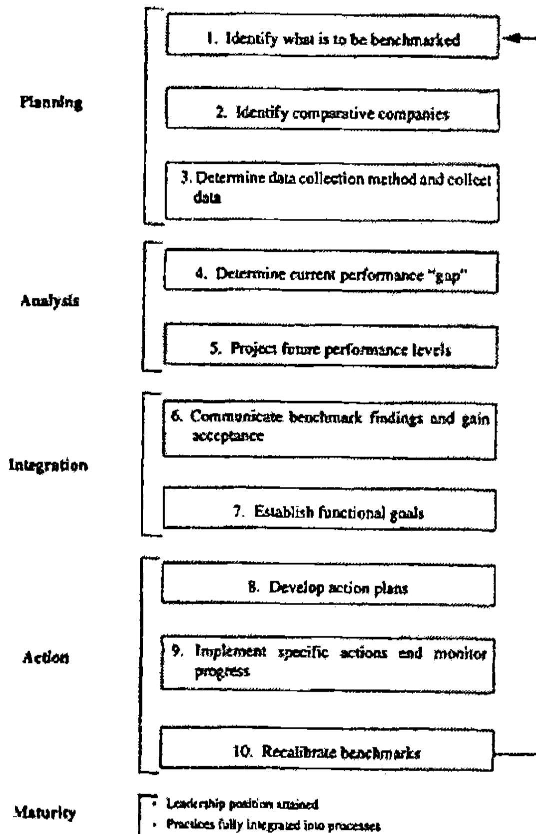

Figure 3.4 The 6-step model adopted by Xerox (1989)

- Purposes of Benchmarking

While benchmarking is a technique for looking outward and gaining insight into measures of excellence, according to McNair, the process begins by understanding the organization itself, its workflows, and the value-added at each stage of the process. This is mainly because benchmarking is comparing existing practices in your company to those used externally[53].

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[53] McNair, C.J and Leibfried, Kathleen H.J. (1992): *Benchmarking: a tool for continuous improvement.* OMNEO. P.54-55

To this end, McNair identifies four types of benchmarking[54], starting within the company through Internal Benchmarking, then looking outward at competition, through Competitive Benchmarking against peers, and Industry-wide Benchmarking, and then across industries, through Best-in-Class Benchmarking.
1. Internal benchmarking is the critical first step in all external benchmarking exercises. At times, it is also used to improve existing performance within an organization. McNair defines *Internal Benchmarking* as follows:

> The comparison of similar operations or functions across a company, or with associated companies, in order to identify the level of service that is best practice within this common setting.[55]

To gain the most benefit from a benchmarking process, a company must first set out to understand and clearly document its practices and procedures. Since benchmarking is by definition a participative process, another benefit of internal benchmarking is that it starts with the people doing the work internally, relies on their recommendations and buy-in to the change process, and continues with their interest in implementing the identified process improvements. It is important to establish a sense of commitment, a channel of open communication and sharing of ideas, within the company.
Internal Benchmarking is essential to define the key performance measures, and to understand the underlying drivers of one's organization. Understanding the internal strategies, structures, work practices and constraints that have defined the way processes are performed within the organization, help identify the key performance indicators that would be important to measure and compare with other organizations[56].
2. Competitive benchmarking focuses on key production methods and characteristics that can provide a company with a competitive advantage over its direct competitors. By observing the way work is done in other organizations, and learning from best practices, a company's aim is to improve its own processes. Competitive benchmarking supports learning at the organizational level, which leads to continued innovation and change. Its point is to catch up and surpass competitors' performance.
3. Industry benchmarking is used to establish performance standards and to detect trends in the competitive environment. Industry benchmarking is not only interested in competitors' performance. Industry benchmarking is broader than competitive benchmarking and focuses on trends rather than particular firms' performance in selling the same product to roughly the same markets.
4. Best-In-Class (BIC) benchmarking is based on the belief that the value creation process has similar characteristics across a variety of institutional settings[57]. It is a free-standing benchmarking approach and its target participants are identified by research. It remains important to ensure that the basic structural characteristics (drivers) of the target firms' environment are comparable to the company that is

[54] Ibid. P.115
[55] Ibid. P. 54
[56] McNair, C.J and Leibfried, Kathleen H.J. (1992): *Benchmarking: a tool for continuous improvement.* OMNEO. P.218
[57] Ibid. P.198

benchmarking; BIC benchmarking can be used to generate innovative approaches or solutions to current problems. It is therefore free from concerns with antitrust or other regulatory issues.

According to McNair, internal, competitive and industry benchmarking[58] can all serve as ways to break down the myopic barriers that prevent a company from identifying, adopting and mastering best practices. In his understanding, if these barriers remain in place, it is quite likely that best-in-class benchmarking will never take place. Therefore, "by definition, [best-in-class benchmarking] requires a clear recognition that someone, somewhere, does the job at least a little better."[59]

Looking beyond one's own industry and viewing one's organization as a series of value chains across functional silos, as well as attempting to identify externally defined measures of one's performance, could be the starting points to identify best-in-class firms. These firms must have gained a competitive advantage in a certain segment of their operations to be recognized as BIC in that process or segment.

In the mid 1990s, Bogan and English, observed of the application of benchmarking in different business situations and identified another three types of benchmarking: process benchmarking, performance benchmarking and strategic benchmarking[60].

1. *Process benchmarking*, (refer to pyramid fig. 3.5), focuses on discreet work processes and operating systems, such as a billing process, or recruitment process. It seeks to identify the most effective operating practices and its power lies in its ability to produce bottom-line results by measuring increased productivity, lower costs, or improved sales. Basically, it measures improved short-term financial results.

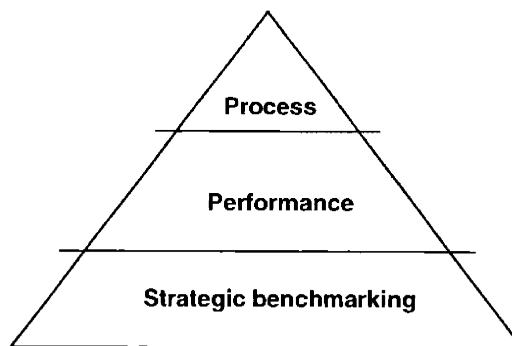

Figure 3.5 The benchmarking pyramid

2. *Performance benchmarking* allows managers to assess their positions through product and services comparisons. It usually focuses on elements of price, technical quality, ancillary product or service features, speed, reliability, and other performance characteristics.

3. *Strategic benchmarking* examines how companies compete. It is seldom industry-focused. It asks why companies are good within and across industries, and studies winning strategies, to learn from best

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[58] Ibid.
[59] Ibid. P.199
[60] Bogan, Christopher and English: *Benchmarking for Best Practice.* Mc Graw-Hill, Inc. P.7

practices. Strategic benchmarking is also a type identified by Watson, in 1994, however he suggests a more advanced definition of that type, therefore it will be tackled independently later in the chapter.

Meanwhile, Boxwell also categorizes benchmarking in three types, competitive, cooperative and collaborative, based on his observation of current practice, in the US and around the world. His classification is more concerned with how benchmarking is performed between parties and the way they relate to it.

1. *Competitive benchmarking* means measuring your functions, processes, activities, products, or services against those of your competitors, and improving yours so that they are best in class, or at least better than your competitors'[61]. Certainly, this is the most difficult form of benchmarking, because the target companies do not always feel comfortable helping the benchmarking team.

2. *Cooperative benchmarking* is much easier to carry out as most target companies do not feel threatened and are willing to share information with benchmarking teams more freely. Target companies in this case are not direct competitors to the benchmarking team. In this benchmarking form, information usually flows principally in one direction, as target companies perceived to be better performers provide information about their performance and processes to the company that seeks improvement.

3. *Collaborative benchmarking* introduces the idea of benchmarking consortia, a form of benchmarking where a group of firms seeking improvements in performance typically share knowledge about a particular activity. Usually, a third party carries out the benchmarking process, compiles the information gathered, analyzes it and distributes it to all participants.

In more recent years, an increasing number of consortia have been convened, and some participants have joined more than one consortium, to share and exchange knowledge and information about different aspects of their business. Some consortia however, are criticized for limiting information sharing to quantifiable data that does not teach the parties anything about how improvements can be made.

In short, Benchmarking is a dynamic process that can take different forms and serve different purposes among industries, companies and functions within the firm. The fundamentals of benchmarking however always remain the same.

- Benefits of Benchmarking

Since Benchmarking involves comparing and understanding how the results of measurement are achieved the strategy has many different applications as well as many benefits.As Bogan and English state, benchmarking is a remarkably versatile business tool. Roland Loesser, the chief financial officer of

[61] Boxwell, Robert Jr.(1994): *Benchmarking for competitive advantage*. Mc Graw-Hill. P.30

the Sandoz Corporation's American Operations, observes: "Benchmarking is powerful because it can be applied to virtually every function in our companies." Some of the more frequent applications include[62]:

1. Setting and refining strategy
2. Reengineering work processes and business systems.
3. Continuous Improvement of Work Processes and Business systems.
4. Strategic Planning and Goal Setting
5. Problem Solving.
6. Education and idea enrichment.
7. Market Performance Comparisons and Evaluations.
8. And catalyst of Change.

It is also recognized that benchmarking reduces the need to reinvent the wheel[63] - why spend time and money to invent something that someone else is using already-. It can help increase the pace of change and restructuring by:

1. Using tested and proven practices by peer companies and competitors.
2. Convincing sceptics who can see that it works – like for example, convincing the CEO that a proposition to implement a new system and/or technique is valid, since its results are observable.
3. Overcoming inertia and complacency by creating a sense of urgency when benchmarking gaps are identified – in other words, understanding the weaknesses and gaps within one's company, hence becoming more aware of the urgency of remedying the problem.

Benchmarking can create new ideas by looking for improvement, commonly referred to as 'outside the box', by looking for ways to improve from outside of a company's industry. As such the process often forces organizations to examine present processes and often leads to improvement in and of itself.

Limitations of Benchmarking

Benchmarking also has its limitations. According to several authors, taking ideas from other companies can be valuable, but it can also mislead and distract.

- Playing catch up instead of leading

First, benchmarking can prevent managers from focusing on what is unique to their situation and on their core competencies, in which case they become laggards –who follow the path of great familiarity[64]-, rather than leaders –who follow the path of greatest opportunity-.[65]

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[62] Bogan, Christopher and English: *Benchmarking for Best Practice.* Mc Graw-Hill, Inc. P.9-12
[63] Teicholz, Eric. *Benchmarking.* Facility Design and Management Handbook. Mc Graw-Hill. P.30.
[64] Hamel and Prahalad (2000): *Competing for the future Managing Global Real Estate.* IDRC Corporate Real Estate. P. 19

Second, it can create a process of chasing best-in-class models, rather than focusing on adding value to one's own business. Instead of attempting to dissect and understand other companies' strategic plan, a CEO needs to develop a company's plan in relation to its business objectives and goals. More of an art than a science, benchmarking can obscure planning processes. Planning processes should be clear about the value they are trying to create – the well-defined objectives built around the insights and skills of senior corporate managers.

Finally, benchmarking against the industry can lower companies' ambitions, according to Campbell[66]. The author believes that businesses should aim to achieve twice as much as the industry leaders, because achieving only as much won't be enough anymore by the time you get there.

- Critical Success Factors of Benchmarking

According to Watson, "critical success factors are a limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are the key areas where things 'must go right' for the business to flourish. If results are not adequate, the organization's efforts for the period will be less than desired"[67]

Critical success factors, or what Watson calls CSFs[68], are measurable and observable business processes that are important for the success of the business. Few critical factors that should be measured, benchmarked and improved to sustain continued growth of the entire business system. Examples of success factors include: productivity, technology, customer relations, research and development, new product introduction, overhead cost structure and facilities and company image. CSFs should be based on the company's core competencies, and key business processes. It is important to identify those factors, and carefully select them to ensure a useful benchmarking process.

- Principles of Benchmarking

Four principles[69] of benchmarking form the methodological basis for conducting a study. And then a Code of Conduct provides the protocol. In reality, the Code is an extension of basic business ethics. It was developed as a reminder to guide the relationships of benchmarking partners. (Refer to Appendix A for the Code). Benchmarking partners should be willing to behave in the same way they expect others to behave; to maximize the benefits of sharing and learning, an open channel for communication is key.

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[65] Ibid.
[66] Campbell, Andrew (March-April 1999): *Tailored, not Benchmarked.* Harvard business Review.
[67] Watson, Gregory H. (1992)*: The Benchmarking Workbook: Adapting best practices for performance improvement.* Foreword by Carla O'Dell, Publisher's message by Norman Bodek. P.19
[68] Watson, Gregory H.: Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley & Sons, Inc. P.57
[69] Ibid. P. 7-50

1. **Reciprocity:** Benchmarking is a practice based on reciprocal relationships. All participants would be winners as a result of the sharing and the exchange of information between companies. Reciprocity however does not happen blindly. Information boundaries and data exchanges must be negotiated upfront, along with the logistical considerations of conducting a study.
2. **Analogy:** Benchmarking a company with a non-analogous process is not useful or enough. Operational processes must be comparative or analogous if the highest degree of knowledge transfer between benchmarking partners is to be achieved. Building an analogy and understanding the explicit criteria for selecting benchmarking partners will, ultimately determine a company's success in discovering business process improvement opportunities.
   As BIC benchmarking is indifferent to industry boundaries, and immune to anti-trust concerns, the usefulness of benchmarking is based on comparability: similarity in the core work flows, contextual and environmental constraints and characteristics of the target firms to the one benchmarking against them.[70] An apples-to-apples comparison is therefore necessary.
3. **Measurement:** Benchmarking is measured performance between two companies; the objective is to understand why the varying degrees of performance exist and how the higher degree of performance was achieved. The *why* and *how* of process performance, are process enablers. Careful measurement and observation of analogous processes ultimately enable companies to adapt identified process enablers to their own processes.
4. **Validity**: Most companies willing to partner in benchmarking have no problem sharing their own measures for encouraging their partners to measure a representative sample of their process through inspection and observation. To ensure accurate representation, sample measures need to correspond to the measurement system used. Companies usually want to complete their own sample measurement, to check for reliability. Because reliability can be validated, process measurement validation should be an objective for all process owners. In order to observe, correlate process enablers (the specific practices that caused increased performance) with the process performance measures, valid facts and data must be collected and used for process comparisons.

In actions between benchmarking partners, the emphasis is on openness and trust. This is what makes benchmarking so accessible and useful; as all individuals and organizations feel they are getting back in return exactly what they are giving up.

[70] McNair, C.J and Leibfried, Kathleen H.J. (1992): *Benchmarking: a tool for continuous improvement.* OMNEO. P.199.

- Implementation of Benchmarking Results

Gathering data, analyzing comparing and learning would still be an incomplete process if implementation does not occur. The ultimate goal of benchmarking is increasing stakeholder satisfaction and value. It is an interesting learning process, but has no value if it is not translated into an action plan that produces tangible results. In McNair's words "Benchmarking isn't another fad, to make everyone feel good that the company is trying to get better, but it is the cold shower that makes it very clear just how much they have to improve". When different benchmarking models, were presented earlier, it was clear that all four-, six- and eight-step models included a major implementation phase including the development and execution of an action plan.

According to McNair, effective implementation requires even more than clear objectives and a willingness to learn. It requires careful planning, open communication, participation from the entire management group and the establishment of a clear action plan for achieving best practice. It is important to note that support from senior management is also a critical success factor of benchmarking. It is more than just approval of undertaking the exercise; it requires leadership actions and behavior that signal the importance of the project to the organization.

Once that is established, participation of employees and other management members is encouraged. And benchmarking is key to creating the learning organization, which needs all the support it can get from stakeholders. Furthermore, benchmarking provides the focus necessary for the organization to launch a successful campaign to regain lost markets or gain new ones[71]. It provides a strategic advantage and identifies the gaps and opportunities the action plan should be concerned with. Finally, as McNair puts it: "Implementing benchmarking has a beginning, but no end"!

- Strategic Benchmarking

Since his early writings on benchmarking, Watson recognized the strategic role and potential of benchmarking. He suggested that benchmarking should be used in strategic planning. Watson explained that benchmarking is a tool for setting the appropriate measurable strategic objectiveness for business improvement milestones and targets; therefore, defines strategic benchmarking as

> a systematic process for evaluating alternatives, implementing strategies and improving performance by understanding and adapting successful strategies from external partners who participate in an ongoing business alliance[72].

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[71] McNair, C.J and Leibfried, Kathleen H.J. (1992): *Benchmarking: a tool for continuous improvement.* OMNEO. P.291

[72] Watson, Gregory H.: Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley & Sons, Inc.

In other words, strategic benchmarking (Refer to fig. 3.6 below) is the application of benchmarking to develop an increased understanding of strategic business issues with the cooperation of companies that participate in long-term business alliances.

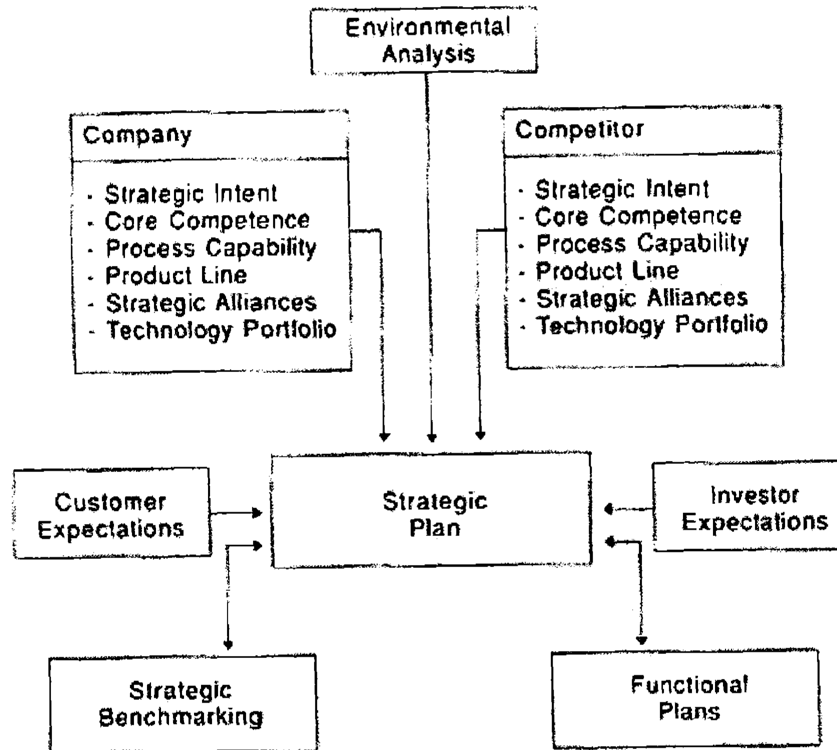

Figure 3.6 The Application of Strategic Benchmarking.

Strategic benchmarking has a different scope than process or performance benchmarking that search for best practices in terms of business processes, short-term or long-term performance. Strategic benchmarking addresses issues such as:

1. Building core competencies that will help sustain competitive advantage.
2. Targeting a specific shift in strategy, such as entering new markets and developing new products and services.
3. Developing a new line of business or making an acquisition.
4. Creating an organization that is more capable of learning how to respond in an uncertain future because it has increased its acceptance of change.

Not to imply that strategic benchmarking is more important than other types of benchmarking, Watson suggests that companies should integrate all types of benchmarking in their work to improve business processes, strengthen core competencies and achieve superior performance. Benchmarking should be integrated in business processes and adopted as an element of planning.

- Benchmarking and Competitive Advantage.

Benchmarking is emerging in leading-edge companies as a tool for obtaining the information needed to support continuous improvement and gain competitive advantage. Benchmarking embodies the pursuit of excellence. According to McNair, the starting point in achieving excellence is the customer. Certainly, whether internal or external to the corporation, the customer is the ultimate judge of performance and its quality. In a competitive environment, stakeholders (shareholders, employees and customers) have different needs and expectations. Companies need benchmarking to learn about others and to achieve superior performance.

Of course, the ultimate goal remains profitability, according to McNair. He says: "A going concern must strive to enhance its cash generating ability."[73] In other words, bottom-line results are still a universal language of success. However it is important to recognize that customer and employee satisfaction and loyalty have also become critical success factors in company performance, especially in a service-driven economy like today's.

To this end, following the logic of Hamel and Prahalad, achieving world-class competitive capability means that management ought to be constantly looking forward, adjusting the organization's activities, and goals to respond to perceived shifts in customer needs. In other words, strategic planning is the critical dimension to ongoing success. Furthermore, assuming that "competing for the future" is the new philosophy of business, benchmarking can be a cornerstone of that philosophy. Looking backwards is essential when it makes looking forward more successful, if it promotes learning and continuous improvement.

In summary, benchmarking continues to play two major roles[74], both of which are required for the process to support strategy

1. Proactive Benchmarking uses leading indicators. These indicators foreshadow or anticipate future system outcomes. They provide valuable information to help an organization intervene up-stream, for example, in the early stages of a project or process.
2. Reactive Benchmarking uses lagging indicators such as financial measures that provide a perspective on the completed performance of a system.

According to Bogan and English, leading indicators are proving to be more useful than traditional financial indicators, since benchmarking is more concerned with the future. It is focused on establishing performance targets. It sets the stage for strategic planning and the realization of those plans. Benchmarking in its complexity is an integral part of strategy formation. Therefore, Internal Benchmarking, as defined earlier, is also a critical component of strategy formation as well as a catalyst for initiating new

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[73] McNair, C.J and Leibfried, Kathleen H.J. (1992): *Benchmarking: a tool for continuous improvement.* OMNEO. Chapter 1.

[74] Bogan, Christopher and English: *Benchmarking for Best Practice.* Mc Graw-Hill, Inc. P.7

projects. The key is to understand well the internal processes of the firm, know more about all different aspects and issues, and plan well for the future, so as to minimize mistakes, and maximize opportunities.

Several scholars explicitly point out the fact that measurement is an integral part of planning and controlling, and it plays a major role in planning for competitive excellence. Benchmarking is becoming the basis for this measurement process. It is forward-looking, holistic, participative, quality focused, and stakeholder driven. In short, the process of benchmarking is about an internal assessment, an understanding of drivers and enablers, performance measures and critical success factors. It is also identifying best practices, best-in-class targets, and superior performance. Most importantly, it identifies gaps, thus unravels opportunities.

Benchmarking has the capability of initiating quantum leaps, rather than incremental improvement. Indeed, as Dave Franceschi, manager of quality support at Graniterock[75] put it, benchmarking can provide what he calls a "leapfrog opportunity" enabling a company to ratchet up performance dramatically. "It can give a shock or surprise" he says, "and then rather than strive for mere continuous improvement you look for radical shifts. If we hadn't benchmarked Domino's we would have been happy with 5% improvement. But because of that experience, we got up to 95% on-time delivery within two-years"[76]. It forces recognition of strengths and weaknesses.

When Watson talks about strategic benchmarking, he explicitly refers to that aspect of benchmarking that attempts to understand the observed tactics of competitors, and explain the strategies that these competitors are implementing. According to him, the only way to plan for the future using benchmarking strategically is unravelling the real reason behind competitors' performance and results, and attempting to understand the drivers, thus the core competencies that they are building and developing. Hence, it is as important to establish an integrated approach to strategy as it is to have an integrated approach to benchmarking. To illustrate, according to Watson, a mature company's approach to benchmarking will focus the majority of its available resources on benchmarking key, cross-functional business processes that support the long-term strategic intent and develop process capability, or on those areas to develop core competence.

He concludes that: "The synchronization of the benchmarking activities and the strategic intent of a company form the fundamental principle behind strategic benchmarking."[77]

[75] Graniterock Co., a Watsonville, California manufacturer of construction and road-building materials.
[76] Fast-cycle benchmarking. Harvard Management update.
[77] Watson, Gregory H.: Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley & Sons, Inc. P.32

chapter FOUR Data collection and analysis

Benchmarking and Corporate Real Estate

From the above discussion about benchmarking, two points stand out as relevant to corporate real estate:

1. The kind of benchmarking performed in terms of scope, and *why* it is performed, revealed through:
    - Internal benchmarking, as explained by McNair, and Watson
    - Process benchmarking identified by Bogan and English, as opposed to performance and strategic benchmarking.
    - Best practices and performance benchmarking identified by Bogan and English, as well.
    - Industry benchmarking[78] referred to by McNair.
    - And Best-in-class[79] and competitive benchmarking described by McNair, and Boxwell.

2. Who benefits from the exercise, in terms of the depth of commitment of the partners and *how* it is performed-[80]
    - Collaborative – two-way learning of all sharing partners.
    - Cooperative benchmarking- a one-way learning process from partner.
    - Competitive benchmarking- also a one-way learning process from competitors.

Certainly, as we have seen in the past chapter, the fundamentals of benchmarking remain the same, however, depending on the industry, company or function, its scope and way benchmarking is performed may vary tremendously.

Overview of Corporate Real Estate Benchmarking

The nature of corporate real estate compels CRE departments to deal with the biggest challenges that their businesses are facing, such as globalization, restructuring, and technological changes. As a consequence, real estate has been gaining visibility and interest from senior management.

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[78] Identified by McNair.
[79] Also identified by Bogan and English and McNair.
[80] Mainly, the three types identified by Boxwell, define benchmarking in terms of how it is performed, and who benefits from it.

Nonetheless, as Martha O'Mara states, real estate remains a specialized, expensive, visible, long-lived and necessary asset. It requires long-term commitments in a short-term world. In industries such as high tech and financial services, the pace of change and sophisticated technological requirements of the businesses intensifies the risks associated with such long-term commitments. Challenged to meet such demands, many corporate real estate departments have become more proactive and involved in their companies' strategic planning processes.

- External providers in Benchmarking

Throughout the past decade, corporate real estate units have turned to benchmarking in search of best practices in the profession. Individual companies have utilized both process and performance benchmarking strategies to compare their work with that of peers within industry as well as across industries. They have conducted this work within consortia, in collaboration with service providers such as Jones Lang Lasalle, KPMG (now Bearing Point), Balderston, and Guthrie, who acted as facilitators and through independent benchmarking efforts within their own companies.

During this same timeframe, several professional associations, including IFMA, BOMA, SIOR, NACORE and IDRC (now Corenet Global), introduced benchmarking as a service to their members. In doing so, each organization attempted to establish a standardized set of metrics to help organizations compare consistent data and information relevant to the particular focus of its constituency.

For example, the International Facility Management Association (IFMA) based in Houston, Texas, offers a methodology for benchmarking current facilities management services. In addition, the Building Owners and Managers Association (BOMA) based in Washington DC, publishes an annual benchmarking report known as the *BOMA Exchange Report*. The information in this BOMA report focuses on information related to cost per square foot for a number of cost categories from the perspective of a landlord or a building owner. Finally, the International development Research Council (IDRC, now Corenet Global), based in Atlanta, Georgia also publishes the *Corporate Real Estate Performance Ratios.* A benchmarking system that provides cost classification guidelines for facility and corporate real estate professionals and accountants through six common benchmarking metrics.

These member-based benchmarking services, initiated by the few major trade organizations involved in corporate real estate and facilities management, are involved in the benchmarking practice that McNair refers to as *Industry benchmarking*[81]. This practice establishes performance standards (and ratios) by collecting data from members, detecting trends in the competitive environment and breaking them out by global region, such as Asia, Europe and North America, and by industry sector, such as manufacturing, services, infrastructure and e-industries-. This type of benchmarking does not focus on a particular company's performance; instead it enables a CRE unit to compare its work on a broader scale to industry

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[81] See chapter three, Models and Types of benchmarking.

and to regional practices and trends. These initiatives are considered potentially powerful tools to enhance the members' capabilities.

The respondents who were involved in industry benchmarking, or professional organizations benchmarking studies, range from those who find the practice useful to those who believe that the approach is too broad-based. As a consequence, company interest and participation in benchmarking within consortia continues to grow, as two of the respondents actually stated that they have shifted from working with professional organizations, to benchmarking through consortia. Nevertheless, now Corenet Global has launched a third-party led type consortium, and has conducted one study so far, in which four of the respondents were participants. In an effort to be less broad-based, but still cross-industry, Corenet is now experimenting with this type of consortium.

- Writings around Benchmarking in Corporate Real Estate

In 1993, Ed Noha published an article about benchmarking practice in Corporate Real Estate. The article is based on nine benchmarking studies that include more than sixty leading US companies, conducted during a six-year period in a variety of industries by La Salle Partners. The studies examine the corporate real estate functions and identify best practices leading to superior performance of corporate real estate portfolios. Although the practice of benchmarking in corporate real estate continues to grow, Noha's work, based on interviews and surveys with companies who benchmark the CRE function, remains the most significant and influential in this field.

Noha identifies four major benefits to the benchmarking process, and describes an iterative four-step process that can be applied in real estate. Finally, he expands on the two major indicators of superior performance and the critical success factors of the benchmarking exercise.

He has found that benchmarking can[82]:

1. Identify and measure superior performance –to quantify real estate performance and communicate targets to senior management in a language they can relate to. These measures are mostly financial metrics that management deems important.
2. Prioritize opportunities –allowing managers to focus their resources in areas of greatest value such as human capital.
3. Identify solutions – as a way to identify best practices and processes that could actually improve performance.
4. Empower the Real Estate function – in that benchmarking is a way to communicate opportunities to senior management, in a familiar language to them, in an effort to gain their interest and support on past performance and in relation to future plans of the Real Estate unit.

[82] Noha, Edward: Benchmarking: The Search for Best Practices in Corporate Real Estate. The Journal of Real Estate Research. Vol.8, no.4.

As a result, he finds that "The typical result was the significant enhancement of the Real Estate function's status and credibility within the corporation.

Noha further explains that it is impossible to identify opportunities for improving the performance of real estate portfolios if real estate executives don't really understand the characteristics of those portfolios. It is also impossible to interpret any of the results of benchmarking studies if executives don't understand the strategies and objectives of their businesses. He suggests that benchmarking provides companies with opportunities to: 1) identify opportunities for improvement by comparing key performance measures against competitors and "best-in-class" performers; 2) identify new solutions by assessing critical drivers of these measures; and 3) implement and revise solutions consistent with changing business objectives To accomplish these aims, benchmarking must become an ongoing process of determining additional opportunities as business strategies change over time. Furthermore, Noha focuses his discussion on two major key drivers to superior performance that his respondents consider priorities once operating needs have been satisfied: Reducing occupancy costs and using capital efficiently in real estate.

He also touches on the key factors necessary to ensure benchmarking success, such as:

- Open sharing of data among participants
- Focus on relevant issues
- Apples-to-apples comparison
- Comprehensive analysis of results
- Exchange of solutions

In brief, Noha examines *what* benchmarking in corporate real estate encompasses; *why* real estate executives benchmark and *how* benchmarking in this field is carried out.

In a recent interview, Noha explained that today: "The biggest change in benchmarking is not in the quantity of data but rather in the demand for it." Noha also confirmed that benchmarking has been in greater demand since the early 90s, and an increasing number of CRE units have seen its benefits and have adopted it and integrated it in their operations. According to him, as real estate has been elevated, and has acquired greater visibility within the firm, it gained more interest from CEOs and CFOs.
The growing trend towards resource leverage, and support facilities' participation in adding value to the business, has been accompanied by an increase in CRE units' quality and performance. "5 years ago, the CEO started asking CRE departments: "how are you supporting my business?"" he says. The interest instigated direct communication and a more thorough understanding of real estate finance at the management levels of the firm.

- Benchmarking in 2003

In an effort to determine how benchmarking in corporate real estate has changed since 1993, I have conducted a set of interviews with industry practitioners actively involved in these practices. The interviews included questions about company practices and applications of benchmarking designed to illustrate *how* corporate real estate units in leading financial services, insurance and high-tech companies are benchmarking, *why* they have adopted benchmarking as a practice and *what* metrics they are benchmarking.

In most corporations, executives have adopted benchmarking to track their performance and position themselves in relation to peer companies. Nevertheless, they have done so in many different ways and through diverse methods

The respondents in this work are all corporate real estate executives and unit managers in charge of benchmarking practices within their divisions. The following table describes key characteristics of these respondents more fully:

Units	Reporting	Centralization	Point of contact with their customers.	Benchmarking period length
Domestic	- Chairman of the board - Executive VP→ President - CEO - Vice Chairman - HR→ CEO	- 7 centralized	- Specific people assigned by management as a liaison between Bus and support functions - CRE-assigned Relationship managers. - CRERM + head-CRE & head-BU and VP-CRE & VP-BU	- 2 years - 6 years - 10 to 12 years - 3 years - 3 to 4 years
	- HR	- 1 restructuring, consolidating	- Bus-assigned relationship managers.	
	- CFO	- 1 decentralized (9 regional offices)	- Customer contact group	- 6 years
International	- HR	- Global – integrated/centralized	- CRERM	- 6 years

- Benchmarking Practice

- Benchmarking Consortia

As stated earlier, a benchmarking consortium[83] is a group of organizations that have joined together, to help each other perform some part of the benchmarking process. All companies interviewed, lead their

[83] Damelio, Robert (1995): *The Basics of Benchmarking.* Quality Resources.

benchmarking practices through participation in one or more consortia. Members share contacts for benchmarking studies, assist in data collection, and exchange information regarding best business and benchmarking practices.
A number of consortia were formed to share and exchange information and ideas about best practices in corporate real estate. Some participants joined more than one consortium, in order to examine different aspects of their businesses and compare information and data with different types of companies, both within and outside their respective industries.

Most corporate participants interviewed are currently members of at least two consortia. No two consortia are the same, since each conducts a different type of benchmarking in a different way and for different reasons. In addition, the mix of participants, companies and industries involved in each reflects the interests of the participants and, ultimately, the focus of the consortia's work. Even more significant, however, was the difference between the two specific types of consortia most commonly used in corporate real estate benchmarking: third-party run and self-run consortia. To highlight the difference between these two consortia types, a brief description of each will be accompanied by a few distinctive characteristics.

- **Third-party run Consortia**

  The first type of consortia is one that conducts a formal, structured study, through a third-party – usually a service provider, or benchmarking consultant – joining participants to benchmark *collaboratively* process and performance, as well as best practices, once a year. Respondents participating in those groups insisted that the presence of a third party actually made the study more *credible* and *reliable*. "A facilitator is more objective", according to one respondent, and "if there was no facilitator, it wouldn't be as solid". When corporate real estate units use their benchmarking results to make a case or validate an argument to their CFO, the presence of a third-party facilitator, conducting those studies can make it more convincing. A facilitator can also serve as a benchmarking consultant, when the individual is called in to present recommendations and action plans to senior management, in collaboration with the head of the CRE unit of the company.

  Confidentiality

  While benchmarking is a sensitive practice in regard to openness and trust among its participants, the presence of a third party facilitates the exchange and sharing of proprietary information and solves the problem of *confidentiality* that would otherwise prevail.

  Structure and specificity

The third-party-run consortia are usually more structured and organized and the process often follows an expanded four, six or eight-step, model similar in most respects to the 4-step Deming model of quality improvement[84].

In more descriptive terms, the process spans over a significant period of time as it includes:

1. Planning meetings where most terms and measures are defined and explained in agreement between parties.

2. Releasing questionnaires and forms (or computer models) for data gathering and identifying a time span for companies to collect data.

4. Planning follow up meetings to discuss gathered data.

5. Drafting reports, and sending a copy to participants for feedback

6. Finalizing report and sending the compiled final version to all participants with results presented in an anonymous form

7. And finally sending individual reports to each member of the group, with specific highlighted areas in the study, recommendations to improve performance, and action plans to implement them.

Notwithstanding this level of reporting detail, respondents suggested that the danger remains that these reports more often than not wind up on the shelf. "We got a booklet and just put it away" as one participant exclaimed. Quite simply, after the long process, some participants don't take it to the next step, the step of implementation. With all this said, the studies conducted with third-party facilitators are more *specific* and *comprehensive* than the studies carried out within self-run benchmarking groups.

More quantitative results

According to four respondents, the results obtained through third-party led studies are more quantitative in nature, although they do contain a qualitative section as well. They produce baselines or standards against which members can compare their own performance and accurately position themselves in the marketplace making it easier for CRE units to inform senior management about their relative performance, as compared to industry-wide indices and to the performance of their peers.

Number and mix of participants in a group

According to most respondents, often, third-party led benchmarking consortia are *industry-specific*. One of the most important concerns in benchmarking is joining the right mix of participants in a benchmarking exercise. An ad-hoc mix could dilute the relevance of the study, especially when results don't compare, due to inconsistency in the definitions of the data being gathered. Therefore some candidates could be off track completely, in so far as their results turn

[84] See chapter 3, under Models and Types of Benchmarking.

out to be either too high or too low. To most respondents, the rigor with which terms are defined in industry-specific groups is helpful, although the comparison of data is still problematic. Furthermore, the number of participants in a study defines how broad and comprehensive the exposure and exchange will be. Therefore participants are challenged to select the right mix and number of participants. Respondents acknowledge however, that it is challenging to put a group in place.

Cost of study

CRE executives frequently incorporate the costs associated with formal and third-party facilitated benchmarking studies in their yearly budget. Not surprisingly, the costs associated with formal and third-party run studies are typically the most expensive, while the costs of association–run studies are nominal. Several companies have withdrawn from these facilitated consortia, for less expensive ones, due to high costs of participation.

- **Self-run consortia**

A Self-run consortium is a group of CRE units that have come together and conducted their own rather informal studies. In this type of benchmarking consortia, companies select a committee to gather the data and handle the benchmarking process. The study shows that this practice is mainly a *collaborative benchmarking* effort, at least in the first step of the process.

Confidentiality

Since companies handle the coordination, gathering and compilation of data, self-run benchmarking groups run the risk of remaining too broad and not getting into enough detail, as participants might not be willing to share as much information. In this case, disclosure and confidentiality are difficult to manage.

Informality, less structured studies

Although the studies are less detailed and specific, respondents suggest that they offer more potential for individual dialogue between participants. Participants meet to discuss the issues that they are interested in benchmarking, such as the number of steps involved in a company's project approval process, or the benefits of implementing a sound-masking system. They compare notes, learn from each other's processes and above all identify best practices. Follow-ups are more frequently done informally by phone or email, since the sessions create an open channel of communication, and participants interested in continued learning are extremely responsive to a peer's concerns. These follow-ups can be characterized as cooperative benchmarking efforts.

More Qualitative data

The more open dialogue that occurs within informal benchmarking sessions provides participants with greater insight into performance drivers, as well as underlying enablers of *best practices.* According to three participants, this benchmarking strategy often referred to as drilling down deeper into the data is potentially more valuable than the more structured data.
For example, in one case a consistently higher cost per square foot of one company's portfolio in relation to all the other benchmarking partners was alarming to the CRE manager. A thorough follow-up led to a deeper analysis of the results as well as clarifications and refinement of the definitions of the data. The follow-up revealed two major reasons for that consistent difference: all properties occupied by the company were located in expensive markets; and all offices occupied Class A buildings.

Number and mix of participants in a group
Most self-run benchmarking practices are a cross-industry mix of participants. Companies join in search for best practices and superior performance. It has been argued that a more diverse, *cross-industry mix*, can in fact provide CRE units with a wider exposure to *best-in-class.* Therefore, informal self-run benchmarking studies may offer great potential for breakthrough solutions as opposed to incremental improvement." It is in that context that an idea might spark!" one of the respondents exclaimed.

Cost of study
Another advantage of the self-run consortia is also that their cost are lower, since participants in these studies do not incur fees. However, besides the cost in fees, this form of benchmarking can be very costly in terms of the number of people who gather and decipher the data involved in each study.

The most compelling finding was the extent to which internal performance measurements are developed and integrated in the system of the CRE unit and their impact on the cost, in time and number of people needed to carry out a benchmarking exercise. As a matter of fact, the *cost to benefit ratio* was always found to be very high, in less measurement-managed companies, since the information they need to gather was not readily available when they needed it.
CRE units that do not have in place systems to track the essential data find benchmarking far more costly and less beneficial. Participant companies that have been benchmarking for a longer period of time often adopt more efficient systems for collecting and analyzing data. In some CRE units, the refinement of systems is an explicit part of their strategy.

It was interesting to find though, that not all CRE units have relied on particular information systems solutions in their benchmarking studies. Therefore, the accessibility and availability of the data required in

a benchmarking data collection phase, was a function of the level of advancement and sophistication of the technology employed to enable this process. It was noted that more technologically-advanced CRE units, have been able to gather data in as little as one day, while others, few months to complete the process.

To illustrate the differences associated with each type, the characteristics of each are presented in the following table.

	Structure	Focus of Studies	# and mix of participants	Cost of studies	Type of benchmarking
Self-run Consortium	▪ Rather informal ▪ Participants select a committee, in charge of data collection & analysis ▪ Unstructured ▪ More Dialogue ▪ Networking, contacts	▪ Based on Internal benchmarking ▪ Follow-ups → more cooperative ▪ More qualitative. ▪ Identifies drivers Identify enablers, interacting systems, source of new needs and requirements.	▪ Cross-industry, more often ▪ Usually between 12 and 20 candidates	• No external fees • Cost of labor required to generate and analyze data and, for some companies, to administer the process.	▪ Collaborative as a first step ▪ Cooperative in follow ups. ▪ Best Practices ▪ Performance and process benchmarking ▪ Best-in-Class
THIRD party-run consortium	▪ Formal study ▪ Third-party in charge of data collection & analysis ▪ Reports and recommendations ▪ Structured ▪ More specific data ▪ Credibility/reliability ▪ Confidentiality/ anonymity protected	▪ Based on Internal benchmarking ▪ Broad Industry indices as benchmarks ▪ More quantitative ▪ Numbers, benchmarks, indices +some qualitative descriptions of specific issues. ▪ Results, by company (anonymous) and/or compiled	▪ Industry-specific more often ▪ Typically 5 to 6 participants. ▪ Small group.	▪ Expensive. ▪ 10 to $20,000/study ▪ could go up to $150,000/year ▪ Cost of labor required to generate and analyze data	▪ Collaborative study ▪ Facilitated by third party ▪ Industry benchmarking ▪ Best Practices ▪ Performance and process benchmarking

- **The Value of Benchmarking**

Respondents were interested in best practices, and performance and process benchmarking, for the following reasons. Benchmarking allows them to:

- **Compare performance with peers and competition:** Benchmarking allows CRE units to 1) quantify real estate performance, through internal benchmarking, 2) compare their results, and validate their data, through external benchmarking, and 3) set forward-looking targets. It is a continuous process of measurement and comparison of business processes, against business

process leaders, to gain information that will help the unit take action to improve its performance. Benchmarking results provide participants with new data that help them position themselves in relation to others, and steer the future focus of their work. "It's a performance checkpoint!" as one of the respondents said.

- **Identify best practices and opportunities for achieving superior performance:** Benchmarking reveals best practices of peer companies and inspires the implementation of new solutions to the challenges CRE units face. The studies reveal drivers of best practices and instigate further interaction and exchange of ideas. In turn, this often spurs continued improvement and drives to superior performance. For example, the adoption of a new software for transaction management was recognized to be the enabler of more efficient and accurate performance and a driver of superior performance.
- **Learn about one's weaknesses and strengths:** Benchmarking results allow companies to identify their strengths and weaknesses. The first stage of the process compels them to assess and evaluate their own performance, identify gaps and inconsistencies, and react to them, before taking these measures out to compare with peers. On the other hand, benchmarking also helps real estate units identify their core competencies and encourages them to capitalize on those. Finding out from internal benchmarking results that over time, the cost per square foot was increasing, compelled CRE managers to reassess their relocation strategies that were due to unforeseen circumstances and reconsider their long-term plans.
- **Validate an argument in front of management and stakeholders:** While benchmarking results position companies in relation to their peers, CRE executives also use them to validate their arguments, and make a case in front of the CEO and senior management. Many proposals for implementing new technologies, or work processes generally face resistance from top management, especially when high budgetary impact is involved. However, perceived performance, and comparable results of peer companies who have successfully adopted these systems, help melt away resistance, and gives CRE executives 'bargaining power' in front of management. For example, it would not be easy to communicate to management the benefit of adopting a new technology unless a peer company has adopted it, and has noted significant improvement in processes reliant on that technology.

In addition to the above, respondents who conducted third-party led studies were more concerned with Industry benchmarking, especially that those studies were more often industry-specific. Therefore they were particularly interested in:

- **"Getting a good understanding of the context in which they operate"**: Benchmarking is a tool used to assess the context in which one operates. It allows CRE managers to be aware of new trends in the market, track historical trends and predict future changes. More interestingly,

benchmarking is central to understand the economic environment and the major external factors that could affect their performance in real estate. Understanding the context certainly includes knowing where competitor's stand and locating any eventual threat to one's competitive advantage.

All of the respondents stated that they would rather conduct collaborative benchmarking, even if only as a first step, and then use cooperative benchmarking for follow-ups. Although they are all interested in understanding, locating and learning from their competitors, none of the respondents in this study practice competitive benchmarking. It is clear however that participants have different agendas, and reasons to benchmark. All of them are looking for best practices, within and across industries, through performance and process measures and benchmarks, while some are also more interested than others in industry-wide indices – such as norms set by professional organizations, based on market studies in a specific industry - and standards – such as the acceptable maximum square feet per person in an urban office settings-, based on observations.

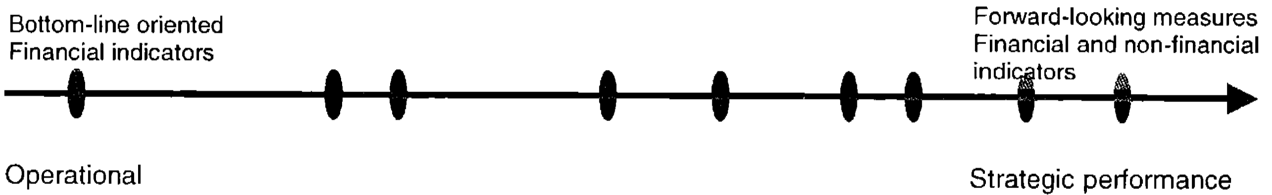
- Measuring performance

In his early work published in 1993[85], Ed Noha pointed out that once operational needs such as flexibility and productivity, have been satisfied, companies should strive to reduce occupancy costs and use less capital in real estate. These two measures were identified as key priorities for superior performance. Noha suggested that benchmarking could enable real estate executives to achieve these two goals by highlighting opportunities to optimize multiple aspects of the real estate process, such as space standards, location criteria, lease terms, finance criteria, and even the decision making process itself. In reality, he identified these aspects as performance drivers of occupancy cost and explained that benchmarking should quantify the impact of each of them on occupancy cost.
Certainly, the ultimate goal of benchmarking of corporate real estate has always been profitability and growth, hence increasing shareholders value. Therefore, financial measures remain key performance indicators. However, in addition to the six key performance drivers of occupancy cost, today, CRE executives agree that these portfolio level measures –identified earlier by Noha- should be accompanied by CRE unit level measures. For example, CRE employee productivity and projects per CRE employee are useful measures today.

Though most of the data gathered a decade ago, remains as relevant to benchmarking today, a more strategic emphasis emerged in the interviews, since six respondents stated that they were using a more

[85] Noha, Edward (1993): *Benchmarking: the search for Best Practices in Corporate Real Estate.* The Journal of Real Estate Research. Vol.8, no.4.

strategic layer of performance metrics to inform their decisions about portfolio and workplace strategies. They describe this as part of their search for superior performance in product and service delivery. Actually, the findings about the ways in which participants have been developing and adopting performance measures range from basic, budget-oriented operational measures to more strategically focused measures. Most respondents are seeking a more balanced set of metrics, between purely financial and non-financial; however, only four of them have truly developed such a system.



Among the ten respondents, only one stated that it did not employ any performance measurements, per se. However, even in this case, the unit executives always examined at least three or four basic measures, such as square feet per person, cost per square foot, and cost per employee. Some respondents used more financially-oriented metrics to track their expenses, such as construction costs per square foot, or energy consumption per year. They use them to set targets relative to the allocation of capital, forecast expenses and then adjust their budgets accordingly, after a project has been implemented. Such measures, described earlier as lagging indicators, help corporate units evaluate their performance in relation to their targets, and produce monthly or quarterly reports to communicate to higher management how they've been doing.

Companies further down the axis, use performance measures to identify key indicators, compare against standards or benchmarks that they set on themselves, and evaluate their internal process efficiency accordingly. They use these indicators to track their performance and trend it across time (yearly or quarterly).

CRE departments that customize their measurement systems suggest that they are more interested in initiating and encouraging innovative ideas to improve their performance, do things more consistently, and to present one face to their internal customers .Therefore, real estate units that have developed their measurement systems, as the result of a major shift to a performance focus, are continuously improving and updating their metrics to incorporate, for example, some that are more customer and employee-oriented. To that end, they developed a feedback system to gather continuous data about customer and employee satisfaction in relation to workplace solutions and service delivery, for example.

While respondents agree that good information is important to organizational improvement, at least four respondents feel that the information gathered through their benchmarking efforts is still in need of

improvement. Four of ten respondents who operate through more formalized systems of measurement believe that they are able to link strategic measures with operational measures. To do that, they are comparing the performance of their companies' portfolios of workplaces over time to determine what progress has been made within their operating systems and processes, through informal internal benchmarking sessions. Furthermore, they are using the indicators they develop to clearly communicate their findings to employees and management, and to compare themselves to their peers in benchmarking practices.

To illustrate these findings, the following table lays out the data that corporate respondents benchmark collaboratively, in search for superior performance and best practices. (Refer to table)

	Operations	Strategic performance
Portfolio level	- Cost per square foot - Square feet per person - Cost per employee - Cost per rentable square foot - Rentable square feet per person - Cost per seat - Person per seat - Revenue per person - Lease cost versus construction cost - Occupancy cost per person - Lease terms	- Aging reports for leases - Customer/employee satisfaction - Efficiency and effectiveness of workplace. - Owned versus leased - Occupancy cost by property type - Occupancy cost by location - Space allocation - Space standards - Provision of amenities - Image and branding - Alignment with corporate culture
CRE Unit	- # of CRE employees - Cost per CRE employee - Cost per in-house employee, - Cost per outsourced employee - # of transactions per FTE - # of projects per FTE - # of leases per FTE - Real estate spending as a percent of operating expenses - Real estate spending as a percent of gross margins	- Efficiency and/or effectiveness of unit - CRE systems employed (in each function) - Satisfaction with/integration of system - Outsourcing - Reporting - Structure of department - Relationship management protocols - # of steps for an approval process - Use of technology in operations

In brief, the study indicates that operational benchmarking, at both the portfolio and the CRE unit levels, was considered by some respondents, to be too reliant on financial measures. It was described as too bottom-line oriented, and not aligned with strategic objectives. As a matter of fact, most or all the metrics associated with this category of benchmarking are lagging indicators that inform participants of past performance. They quantify effectiveness of operations and indicate how a CRE unit has been doing in relation to his peers, to the industry, and historical trends. Performance measures of a more strategic

emphasis, whether on a portfolio or CRE unit level are a balance between lagging and leading indicators that identify opportunities, and point out specific areas to focus improvement efforts.

In line with these findings, the more strategic layer of performance portfolio level metrics reveals an increased interest in portfolio and workplace strategy, in search for efficiency and effectiveness, and ultimately greater customer satisfaction, and employee retention. On the other hand, for CRE units, it also indicates a tendency to quantify process enablers that help develop the level of performance observed – such as information technology used in operations, and structure of the CRE unit-.

- Summary

Based on the study carried out, and the overview of benchmarking in chapter three, it is fair to say that operational benchmarking and strategic benchmarking are complementary, and should go hand in hand to enhance the value and benefits of the benchmarking exercise to corporate real estate.
On the other hand, improving performance on a real estate portfolio level also needs to be accompanied and reinforced by an efficient and effective delivery of the real estate service, which CRE units are in charge of.
While all of the respondents agree that good information is important to organizational improvement, at least four do not feel that the kind of information they have been gathering is optimal at this point.
As many scholars suggest, corporate real estate managers who are actively engaged in benchmarking recognize a need to track their performance and communicate their results to interested parties within the firm. To gather this kind of data on property performance, as well as the unit's work processes, they have developed indicators or benchmarks to quantify their performance internally, and deliver the resulting information to management.[86] Integration of internal performance measurement and external benchmarking with corporate real estate strategy is a critical success factor to help managers deliver in a changing, slow-growth world.

Benchmarking benefits and limitations

- Benefits of Benchmarking

When asked about the benefits of benchmarking, one of the respondents exclaimed: "They say Benchmarking is the fastest way to mediocrity!" Seven of the ten respondents agree however, that benchmarking leads to superior performance, and that's mainly why they are involved in it.
Respondents have identified four dominant benefits of benchmarking, and have stated them as follows:

- **Networking and contacts:** By the nature of the exercise, benchmarking is based on reciprocal relationships. It is built on sharing and exchange of information, and on openness and trust

[86] Gibler, Black and Moon: Time, Place, Space, Technology and Corporate Real Estate Strategy.

among its participants. It helps them establish contacts based on an open and honest dialogue, and therefore all respondents agree that benchmarking is an enabler of such relationships.

- **Numbers as baseline:** Benchmarking is fundamentally a comparative measurement process. It leaves participants, with a great deal of numbers and measures, gathered from as many companies as there were participants in the study. These results serve as baselines to the units' internal performance metrics and from them, CRE units draw industry standards and trends. All respondents seem to agree that having an up-to-date database of measures and benchmarks is valuable in and of itself.
- **Sense and awareness:** Benchmarking instigates internal assessment and reveals strengths and weaknesses. It uncovers gaps and creates a sense of urgency to react to problems. Also benchmarking is key to maximum exposure and visibility outside one's own walls. It looks 'outside the box', triggers curiosity of participants and drives their awareness of the context, competitors and external factors to unravel potential opportunities.

- **Increase visibility, create transparency, and steer communication:** Internally, external benchmarking has helped establish a channel of open communication between CRE units and management, by communicating opportunities identified by benchmarking studies in the language of their own business. As a result, CRE has managed to gain visibility within the company, and enhance its credibility hence reinforce its position and status.

Benchmarking helps create a unified picture of a company's performance in relation to its competitors in the market to the company's stakeholders, especially if other units within the company benchmark as well, and share their findings to assess the company's overall business standing. Unfortunately only three respondents could confirm that other support functions within the company benchmark as well, and only one of them actually shares and exchanges benchmarking results with those units. In that case in particular, senior management, investors and customers, could position the firm in relation to competition on all three strategic levels of the firm –corporate, business and functional levels, which were introduced in chapter one.

- Limitations of Benchmarking

"Benchmarking is a very difficult business if you want to be accurate."

Some of the limitations of benchmarking that were identified by respondents were found to coincide with what Noha considered critical success factors of the benchmarking exercise. Benchmarking practices have not been able to overcome these difficulties yet since respondents agree that these are the pitfalls of benchmarking.

- **Data integrity**: The first step in a benchmarking process must be defining the terms used to determine data elements for benchmarking. Respondents suggest that sometimes the process of defining performance measures to be documented in a study is very challenging, especially if the group is composed of new companies who still do not speak the same language as older participants.

  The most common examples expressed by participants relate to occupancy costs and tax-related concerns. For example, they disagree whether or not occupancy cost includes depreciation of tenant improvements, and whether or not it includes legal fees. On the other hand, participants in an exercise often have different tax situations, and find it hard to deal with that in their data gathering. Since inaccurate data is worse than no data at all, as Noha explains consortia members reconvene to review definitions and validate data both during data collection and upon completion of the first draft of the study report. Nevertheless, no matter how often definitions are checked and adjusted, apples-to-apples comparisons have been nearly impossible to achieve and all benchmarking participants are fully aware of this risk. "You can get *bogus* results"
- **Accuracy and relevance**: Once a benchmarking group has been convened, the companies examine the mix of participants and watch out for irrelevant comparisons. As was said earlier, an ad-hoc mix of participants could in fact dilute the relevance of the study and participants might end up with diverging and incomparable results. Therefore, once the group is formed and interesting sites are identified, the participants must decide what to benchmark. Every benchmarking partner joins a consortium for his own reasons, and takes out of these studies what he wants. As Noha explains, they must agree that if they collect a specific piece of information, it will enable them to improve performance, as noted by Noha.

  Another important thing is that the data that participants decide to collect should be available, or accessible to gather in a reasonable amount of time. Furthermore, the irrelevance of findings of incomparable results, were said to be very costly. These flaws in benchmarking studies waste resources and time, and, potentially cause a loss of credibility in front of management, to the extent that one participant exclaimed: "You could find yourself out of a job!"
- **Delay in delivery of results:** Most benchmarking partners carry out a benchmarking exercise once a year with one or two consortia. Most of them considered that this frequency, in addition to more frequent informal internal benchmarking activities, was more than they needed or could handle. In reality, a benchmarking process, as described in an earlier chapter (4, 6 or 8-step models) and conducted in a formal or informal consortium, spans a period of a few months. Ideally it should be a 3 to 4 months process, but the benchmarking study could span up to 12 or 15 months. Coordinating meetings among different participants, collecting data, compiling the information gathered, and preparing the draft and then the final report seem to be all intensively time consuming. Therefore, by the time participants receive the results for their benchmarking studies of the year, it could be too late for them to implement them.

In the case of lengthy delays, benchmarking results become irrelevant to corporate participants, since the time, market, company challenges and personnel conditions changed, implementation is overlooked and reports find a place on the shelf.
Benchmarking is a timely process. It is more relevant promptly when carried out. Any delay in the issuance of results dilutes the relevance of the information submitted.

- **Overflow of information and improper implementation:** report winds up on the shelf. Too many measurements make it hard to do something with them. Last step missing.
Benchmarking models, identified by authors, and practitioners were all variations, expansions and developments on the 4-step Deming model described in chapter three[87]. The 4th step of the process, "act", "implement", or "execute" hence has been an integral part of the benchmarking process, since the emergence of the practice in the 1980s, but has been the most overlooked stage in the process. Caused by delays in the delivery of the benchmarking results, or by an overflow of information from a benchmarking study – especially when a study tries to cover everything at once, measuring too many elements, then results tend to take more time to come out, and participants find less interest in deciphering the information they receive-; CRE managers give up benchmarking before the process is complete. The first step of benchmarking – selecting the data to benchmark-, and the last step of the process - carrying it to the next level of implementation-, seem to be the most compromisable stages of the process. However, scholars suggest that the value of benchmarking actually resides in these stages, and could be lost if the exercise was not completed since most of the respondents who struggled with the implementation stage of benchmarking happen to be the ones who still requestion the benefits of the benchmarking process all together.

- Corporate real estate and support functions.

Another compelling insight brought forward by the interviews, was the fact that CRE units have been working more frequently with IT. According to respondents, integration has not occurred yet between CRE and IT units; however coordination and collaboration have never been so frequent and intense. Most respondents describe an operational relationship with IT, with which they meet regularly; work with on project-basis; or consult continuously. IT representatives are involved whenever decisions are being made, or projects are being launched.
Nevertheless, three CRE executives have expressed a more strategic connection with IT and seem to have aligned their operations more closely, especially when products such as integrated desktop solutions are designed, to meet the needs of the company and its external target customers.
On the other hand, routine collaboration and alignment strategies with Human Resources have not yet been explored as much, aside from units reporting directly to HR. According to resource leverage can

[87] See Chapter three, under Benchmarking Models.

only be achieved when horizontal alignment occurs. Very few have expressed an interest in further alignment between HR and CRE as opposed to a more obvious need for CRE to work with IT strategically. Although some recognize that when it comes to measuring productivity, HR can add value, according to Noha.

- Potentials of Benchmarking

According to Bogan and English, one of the shifts in perspective that helped elevate the importance of benchmarking in the performance measurement revolution was in fact, the revolution in information technology that would enable teams to quickly and inexpensively generate, disseminate, analyze and store vast amounts of information. The study shows that more integrated CRE/IT relationships and more advanced and integrated IT systems that were used for benchmarking have contributed to more effective and less costly benchmarking. Three of the respondents, who use advanced software and hardware systems to measure their performance and track trends and operations find it much easier to gather data necessary for a benchmarking exercise, and spend as little as one day to complete the work. Less technologically-advanced measurement systems, and similarly, less measurement-managed CRE units still struggle to put data together, in a timely fashion.

The most compelling finding in this regard, is the fact that Noha suggested, based on his experience and research that the success of benchmarking could come from technology, since the challenge remains to get decent and comparable data. Noha points out that technology could provide CRE units with a common framework, as a more efficient and consistent way to get data, if adopted by the majority of benchmarkers. It can help them speak the same language, and interpret measures and results with more rigor. An example of such a framework is the software called GD Edwards that two of the respondents actually mentioned, but that is used in accounting. Noha referred to it as well to explain how technology can bridge the differences between corporate real estate units' measures and interpretations of data, when adopted universally.

In that case, benchmarking partners could get it even closer to 'apples-to-apples' comparisons and overcome the limitations of benchmarking. In addition, technology contributes as well to enhance the efficiency and effectiveness of a process, and reduce the time needed for data collection. Technology thus reduces the cost in term of time, and workforce, and enhances the benefit of benchmarking in terms of greater consistency and accuracy of results.

chapter FIVE Conclusions

- Research Summary

  - Mandate Corporate Real Estate Unit

The role of CRE continues to evolve in corporate America, as senior management realizes the substantial impact real estate can have on bottom line profitability and on the value of the corporation itself. Corporate real estate has been given more attention, as senior management realized the strategic value that it creates, and thus CRE has gained the authority to perform its work under demanding circumstances, through new reporting arrangements within the corporation.
It has gradually been acquiring a more proactive role, as it has been found to add value to the corporation and the individual business units, by pursuing innovative real estate strategies. Such strategies may include occupancy cost minimization, flexibility, outsourcing, promoting human resource objectives, capturing the real estate value creation of business,[88] enhancing brand image, and management of assets as a resource, not merely as cost[89].

  - Benchmarking as an enabler of change

In reality, benchmarking has been a major enabler of change and innovation, since it was adopted in response to the increasingly demanding business environment, and has helped CRE units identify best practices, and implement continuous improvement.
Strategically, benchmarking has contributed to the empowerment of the real estate function. It enhanced CRE's credibility and helped reposition it within the company. It has quantified its value, its contributions and impact on the firm's bottom line, and that was the first step in attracting management's attention.

The study indicates that some companies use benchmarking results to make a case in front of management, to back up their arguments, or instigate reactions. It has established an open channel of communication between CRE unit managers, and senior management, by sharing opportunities identified by benchmarking, in the language of their own business.

  - Collaborative Benchmarking

According to Watson, benchmarking presents a paradox, though: the need for simultaneous cooperation and competition. However, the study shows that corporate real estate units focus their effort on collaborative benchmarking and cooperative initiatives rather than competitive benchmarking, as their aim lies in competing for visibility and influence within their firm rather than competing for market share in the industry.

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[88] see Roulac, 1993 for some of those strategies
[89] Weatherhead, Marion (1997): *Real Estate in Corporate Strategy*. Macmillan.

- Benchmarking Strategic performance

The data gathered indicates that in search for best practices, most CRE units measure operational performance, identifying short-term financial indicators, through process and performance benchmarking. Only a few of the respondents were able to develop their own performance measures, to strategically benchmark process, performance and best practices.

Although the strategic measures are in fact informed by the operational measures, it remains that strategic benchmarking differs, in scope. Strategic benchmarking takes benchmarking to the next level, by looking at peer's winning strategies, identifying and building core competencies and ultimately contributing to support the firm's strategic intent.

Concerned with measures of productivity, customer relation, human resource objectives and, image and branding, some respondent CRE units look for opportunities to support their business objectives while enhancing their operational efficiency on both portfolio and unit level. For example, reducing occupancy cost is an operational measure, but also could be strategic if it supports a business strategy.

Strategic benchmarking contributes by developing an increased understanding of strategic business issues. It seeks to focus the majority of available resources on benchmarking key cross-functional processes that support long-term strategic intent, and develop process capability.

- Technology as an Enabler of Change

Another compelling finding highlights the impact of technology on the enhancement of the benchmarking process. Identified as an enabler of success of benchmarking, information technology can enhance the benefit of the process, and reduce its cost.

For example, the studies of third-party run consortia were described as more structured and specific than self-run consortia, however more expensive. According to Bogan and English who talked about the information technology revolution, and the previous insight made by Ed Noha regarding the opportunity of benchmarking coming from technology, it appears quite possible with technology advancements in benchmarking solutions, specifically, for participants to overcome the high cost in fees of these facilitated studies and still conduct a structured and specific benchmarking exercise, rather facilitated by a technology instead of a service provider. Adding to that the role IT can play in reducing process time of data collection or compiling, and increasing accuracy and consistency of data, as described earlier.

- Concluding and personal Comments

Too often the report of the benchmarking team is presented to senior management, and then relegated to a spot on the shelf. The study shows that the benchmarking practice is not integrated in corporate real estate units processes unless it is an on-going improvement process on which strategic decisions rely. As

long as benchmarking is a tool used to evaluate how the CRE unit is performing, in terms of service delivery and operational efficiency within the unit, or in terms of real estate portfolio financial performance for example, occupancy costs or square feet per employee, it does not contribute to the broadening of the mandate of the CRE unit.

However, once the benefit of benchmarking outruns its costs, and the benchmarking process becomes integrated in the CRE infrastructure, benchmarking becomes an enabler of change, driving continuous improvement and initiating breakthrough ideas. It is exactly at that point that benchmarking would enhance the role of the CRE unit, broaden its mandate, highlight its support of business objectives and align its corporate real estate strategy with corporate-wide strategy.

It is also only then that it is fair to say that "It's a Building Block!", about benchmarking, as Noha recently described it.

Strategic benchmarking is therefore, the type of benchmarking that CRE units need:

1. To achieve a sustainable competitive advantage;
2. To strengthen core competencies;
3. To improve business processes; and
4. To achieve incremental performance gains or make quantum leaps (breakthroughs)

As Chris Bogan explained "Benchmarking is not and should not be an end in itself, but a means to an end." Therefore for the corporate real estate function, moving from operational to strategic benchmarking should not be a challenge in and of itself. Rather the challenge ought to be, integrating strategic benchmarking in order to achieve superior performance, gain visibility, influence and power, and align one's own strategy with the firm's strategic intent.

appendix A

▪ *Code of Conduct*

The Code of Conduct[90] is a set of principles and guidelines which have become a standard for firms that successfully perform benchmarking work.

As a matter of fact, to guide benchmarking encounters and to advance the professionalism and effectiveness of benchmarking, the *International Benchmarking Clearinghouse*, a service of the *American Productivity and Quality Center,* and the *Strategic Planning Institute Council on Benchmarking* has adopted this common Code of Conduct. Adherence to these principles contributes to efficient, effective, and ethical benchmarking. Therefore, participants must agree to abide by themselves and by their organization to the following principles for benchmarking with other organizations.

1. Principle of Legality

   Avoid discussions or actions that might lead to or imply an interest in restraint of trade: market or customer allocation schemes, price fixing, dealing arrangements, bid rigging, bribery, or misappropriation. Do not discuss costs with competitors if costs are an element of pricing.

2. Principle of Exchange

   Be willing to provide the same level of information that you request, in any benchmarking exchange.

3. Principle of Confidentiality

   Treat benchmarking interchange as something confidential to the individuals and organizations involved. Information obtained must not be communicated outside the partnering organizations without the prior consent of the participating benchmarking partners. An organization's participation in a study must not be communicated without their permission.

4. Principle of Use

   Use information obtained through benchmarking partnering only for the purpose of improvement of operations within the partnering companies themselves. External use for communication of a benchmarking partner's name with their data for observed practices requires permission of that partner. Do not, as a consultant for client, extend one company's benchmarking study findings to another without the first company's permission.

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[90] See Watson, Gregory H.: Strategic benchmarking: How to rate your company's performance against the world's best. J. Wiley & Sons, Inc. , Gregory H.: Strategic Benchmarking. 1993, Appendix A, p.217

5. Principle of First-Party Contact

Initiate the process, whenever possible, through a benchmarking contact designated by the partner company. Obtain mutual agreement with the contact on any handoff of communication or responsibility to other parties.

6. Principle of Third-Party Contact

Obtain an individual's permission before providing their name in response to a contact request.

7. Principle of Preparation

Demonstrate commitment to efficiency and effectiveness of the benchmarking process with adequate preparation at each process step; particularly, at initial partnering contact.

8. Principle of Completion

Follow through with each commitment made to your benchmarking partners in a timely manner. Complete each benchmarking study to the satisfaction of all benchmarking partners as mutually agreed.

9. Principle of Understanding and Action

Treat each one of your benchmarking partners in a way that each benchmarking partner would like to be treated.

- The Benchmarking exchange protocol[91]:

As the benchmarking process proceeds to the exchange of information, benchmarkers are expected to:

- Know and respect the code of conduct
- Have a basic knowledge of benchmarking and follow a benchmarking process
- Have determined what to benchmark, identified key performance indicators, recognized superior performing companies, and completed a rigorous self-assessment.
- Have the authority to share information
- Have developed a questionnaire and interview guide, and will share these in advance if requested.

[91] Damelio, Robert: The Basics of Benchmarking.

appendix B

Corporate Real Estate Performance Ratios

As identified by the IDRC in 2000, through a published benchmarking report, six common benchmarking metrics are called the corporate real estate Performance Ratios. Each ratio is broken out by global region and industry sector and also into percentiles to enable readers to rank their company in relation to other members, surveyed.

The six ratios measured are:

1. The lease-to-own ratio: total square footage leased to total square footage owned. The metric can be used to *measure flexibility* and cost associated with a company's ability to adjust space holdings and arrangements. A company with higher ratio may be able to make space adjustments faster and at a lower cost than a competing company with a lower ratio.
2. Corporate Space per Corporate Real Estate Management (CREM) employee: Total leasable space/ total Real Estate department employee. This ratio can serve as a measure of *CREM productivity.* Departments making effective and innovative uses of new technologies may have higher ratios than departments that do not.
3. Space per Corporate employee: Total leasable space/corporate headcount. This ratio can be used to compare how efficiently competing companies *manage their space assets.* A company that pushes the ratio down over time can gain product-cost and flexibility advantages over a competing company whose ratio is static or rising.
4. Corporate sales per CREM employee: Publicly reported annual sales/ real estate department head count. This ratio can be used to compare *efficiency of real estate* departments in competing companies.
5. Corporate employees per CREM employees: Total corporate head count/total real estate head count. Usually a higher ratio suggested a more *efficient CREM function.*
6. Corporate Sales per square foot of space: Total corporate sales/total leasable space. This ratio indicates how intensively a company uses space to generate revenue. Other things being equal, a higher value suggests a tighter and more *efficient business model.*

appendix C

- *Protocol*

Departmental information

1. How would you describe the mandate of your department?
    a. What are your responsibilities?
    b. Are you centralized or decentralized?
2. What is handled internally (i.e. in-house) versus externally (outsourced) to service providers you engage?
3. How many staff members are employed by your department in relation to the rest of the company?
4. How do you coordinate with other shared functions, such as HR and IT?
   On what basis?

Corporate Real Estate

5. Do you employ performance measurements?
    a. If so, what do you measure and WHY?
    b. (also find out how CRE determines what to measure)
6. Do you benchmark? (Probe: internally; against others; part of a consortium)
    a. Since when? For how long have you benchmarked?
    b. Do other support units benchmark? Are you aware of it?
7. What type of consortium? What types of companies participate in those consortia? Financial services companies? Tech companies? Other?
8. What do you learn from your benchmarking results? I.e. when you receive the final report with the benchmarking results, be it numbers, or qualitative measures, what do you learn from them?
9. How do you utilize the results (probe: how are the results analyzed; whether raw data or insights are provided to others – to whom; how the results are used by others)
10. How often do you benchmark?
    a. Do you think you should benchmark more often?
    b. Less often?
    c. Why?
11. How costly is the benchmarking process?
    1. # of people dedicated to do the work.
    2. Fees paid to consortia, third party.
    3. Time consumption to go through the process; to go over report, and study results.
12. How does senior management regard your benchmarking efforts?
    1. From a business standpoint.
    2. From a performance standpoint.
13. Is benchmarking data used in corporate planning? Strategic planning? How?
14. How would you describe the value your business units and/or company get from benchmarking?
15. When deciding upon your strategy for benchmarking each year, do you formally weigh the costs/benefits ratio? (Probe: If so, where do you come out? If not, how do you make those decisions?)
16. What are the overall benefits of benchmarking in your opinion? Any unexplored potentials?
17. Do you think it is possible to do a breakthrough achievement with your benchmarking results, or just incremental improvement? And keep up with the competition?
18. What are the pitfalls and limitations?
19. If you change jobs, and take a position similar to yours here, in a different company, that do not benchmark.
    a. Would u recommend, or even insist that they benchmark, or is it not necessary?
    b. What do you think they are missing if they are not benchmarking?

Corporate Real Estate strategy

1. Does your unit have an explicit strategy? Is it part of the corporate strategic plan?
2. What is the driving force in formulating the strategy, Bus objectives and goals? I.e. occupancy cost minimization, flexibility, facilitation of operations, production, and service delivery, growth, branding and image?
3. Do you consider your Corporate real estate function proactive in setting out its future planning, or is it reactive to customers (BUs) needs and incremental requirements?
4. Are BUs' needs predictable, if not planned? And if not, how do you budget for projected needs? Do you charge them for their use of real estate facilities?
5. Who sign off on it? Who do you report to?
   Has it always been like that? Or has it changed in recent years?
6. How are BUs' needs assessed, validated and prioritized? How do you manage customer interaction, by providing a single point of contact?
7. If asked by the shareholders, how would senior management describe the company's overall strategy for remaining profitable in the current competitive environment? – Mission statement.

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