REPOSITIONING REAL ESTATE COMPANIES:
FROM DEVELOPMENT TO ASSET AND PROPERTY MANAGEMENT

by

Bunna Lertbunnaphongs

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Chulalongkorn University - 1990

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Signature of author

Bunna Lertbunnaphongs
June 21, 1996

Certified by

Sandra Lambert
Lecturer
MIT Department of Urban Studies and Planning
Thesis Supervisor

Accepted by

William C. Wheaton
Chairman
Interdepartmental Degree Program in Real Estate Development

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ABSTRACT

During the early 1990s, five interrelated supply-side issues forced a substantial number of development firms to reposition themselves as asset and property management providers to survive. Those five issues were: over-supply of products, decreasing new development opportunities, aggressive competition, an increasing number of distressed properties and scarcity of funding. That caused demand for managing the existing stock of building grew. However, as many firms entered asset and property management, the competition became fierce.

This thesis assumes that the characteristics of real estate development are very different from those of asset and property management. Thus, significant organizational changes are required for a successful and sustainable repositioning. A development firm is like a manufacturer; it focuses on design, production and marketing of its products. An asset and property management firm, in contrast, is a service provider. It focuses on its employees, customers, delivery process and relationship management. Therefore, it is important to ask: *what are the important internal strategic elements that can facilitate a successful and sustainable repositioning?* I have hypothesized that the key elements are roles of personnel, capabilities of the firm, and the performance measurements.

Three steps towards answering that question are: 1) to identify of the characteristics and key strategic elements of a service business; 2) to show that asset and property management is also a service business; and 3) to contrast the characteristics of the real estate development business (and its important strategic elements) to asset and property management.

This thesis looks at three companies which successfully traversed the repositioning process, and analyzes their experience. The evidence indicates that all three strategic elements- - roles, capabilities and measurements ----must be brought into play for repositioning to be successful, in terms of sustained, long-term profitability.

Thesis Supervisor: Sandra Lambert
Title: Lecturer, Department of Urban Studies and Planning

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Chapter 1: Statement of Purpose

Introduction

Recently, several types of fee-based businesses have played a substantial role in the U.S. real estate industry since they can generate a consistent stream of income regardless of the phase of the development cycle[1]. These services have provided a way for many commercial developers to sustain their organizations through the recent downturns in the development cycle. This "repositioning" or shifting business focus in U.S. real estate, especially in the commercial market, has been a reaction to trends and opportunities that evolved in the soft market during the last couple of years.

There are several areas of services targeted by "repositioned" firms: asset and property management, tenant construction, brokerage, and corporate strategic management[2]. Among these various services, commercial asset and property management, especially asset and property management for office buildings, was chosen by many of development firms seeking to transform themselves.

To provide and sustain quality service competitively in the long term, a firm must recognize which service strategies must be changed and managed during and after repositioning. The objective of this thesis is to identify important strategic elements that a real estate development firm must be aware of in shifting its business focus to real estate asset and property management.

As development companies have repositioned themselves and entered the market as asset and property managers, the competition has become increasingly aggressive, with an emphasis on the quality and long-term sustainability of services. Price competition for these services will likely lead to decreasing profitability for market participants. In discussing the strategies critical to a successful transition, this thesis will focus on one area of competition: quality.

Thesis Structure

This study will approach the research question by applying relevant theories to the actual practices of real estate firms that have recently repositioned themselves.

In this chapter, I outline external forces such as the declining economy and the overconstruction of office space that have driven many real estate development firms to

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[1] Interview of David Cohan, senior acquisition, Beacon Properties Co., 1995.

[2] Christopher B. Leinberger, *Strategy for Real Estate Companies, Marketing, Finance, Organization*, the Urban Land Institute, 1993. p. 1-39

consider shifting the focus of their businesses toward real estate asset and property management. Assuming that real estate development and real estate asset and property management are different in nature, I raise the hypothesis that such a shift in focus requires changes in organization. I hypothesize that the real estate development business focuses on design, production and marketing of its product. Real estate asset and property management (APM) is like a service business: It focuses on people, quality of service, the delivery process and relationship management.

I describe the structure of a typical real estate development firm. Then, I compare organizational roles, capabilities, and measurement of real estate development firm to those of a typical asset and property management. I argue that these three factors are critical in the successful repositioning of a firm from a focus on development toward real estate asset and property management.

In the second chapter, I adapt a framework describing the nature and characteristics of service businesses. This framework suggests that for an organization to offer quality services, successfully and sustainably, it must focus on roles, capabilities, and measurements. I assume that issues facing other service industries also apply to asset and property management. I derive my view of a service industry frameworks from the work of researchers such as Heskett (1990), Mills and Moberg (1990), Scheider (1990), Collier (1990), Czepeil (1990) and others.

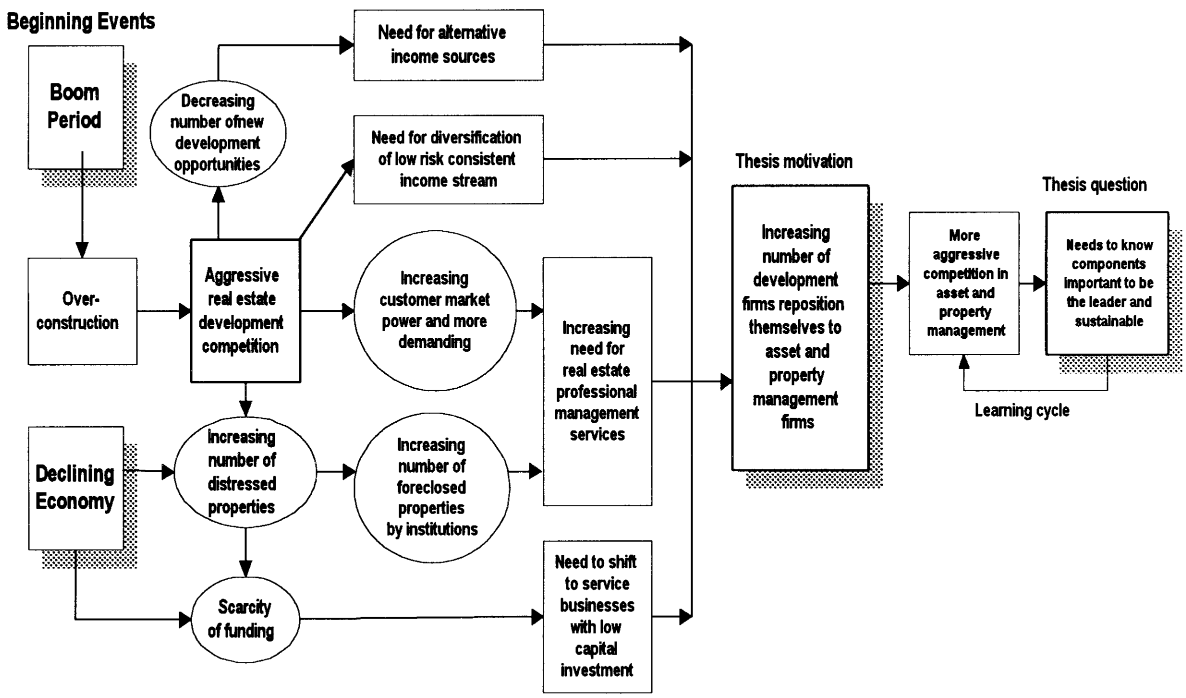
Chapter Three describes asset and property management as an example of a service industry. I define asset and property management by its scope of services. I base my argument that an asset and property management firm is a service organization on the fact that asset and property management focuses most on its people, quality of service in relation to customer expectations, and relationship management. I detail similarities among organizational roles, capabilities, and measurements of asset and property management and those of other quality service organizations.

In Chapter Four, I demonstrate the significance of these factors by describing the practices of actual firms that made this transition. I analyze the experiences of these firms in terms of the service industry framework developed in chapters two and three.

Forces Driving Changes in the Real Estate Industry

In the past few years, several factors caused real estate development firms to reposition themselves as asset and property management firms. These driving forces and their consequences are presented in exhibit 1.1:

Exhibit 1.1: Sequential diagram of driving events, repositioning (motivation) and Thesis question.



As shown in exhibit 1.1, the boom period in the real estate cycle created an oversupply of office building, which, in turn, created aggressive competition in the real estate office market. Five phases of this process are identifiable:

1. The over-construction of commercial real estate created decreasing opportunity either to sell or lease space in new developments . It will take several years for market demand to catch up with supply especially in the area of office markets[3].

2. In order to keep income streams constant throughout the downturn, some developers, like portfolio investment managers, have chosen to balance their operation strategy with lower risk return, regardless of whatever stage of the cycle (upturn, maturity downturn) they are in. Asset and property management are the two kinds of

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3 William C. Wheaton, *The US Real Estate Market, An Economic Outlook For the 1990's*, MA: MIT Center for Real Estate, 1993. p. 14-18.

businesses that always generate a consistent flow of revenue. The oversupply of existing office space created a huge stock of buildings which, in the long run, still needed to be managed[4].

3. In the early 1990s, the scarcity of equity for the real estate industry made it difficult to fund new development projects. Unable to start new projects, developers sought alternative sources of revenue. Some decided to transform themselves to fee-based businesses requiring a lower amount of operation cost relative to development cost, but able to generate income adequate to cover their entire overhead and maintain their core staffs[5].

4. The financial problems of many developments led to loan work-out and foreclosure of those properties by institutions that had no expertise and knowledge about managing real estate. These institutions really needed real estate management services from experts[6]. Some repositioned companies, e.g., Transwestern, a real estate developer in Dallas, Houston, and Austin, began their service business successfully through a relationship with their lenders.

5. The power base in commercial real estate has executed a 180-degree turn from the developers/ owners to the tenants/ customers. Today, due to the excess space still available in the market, tenants have many choices and have become more demanding. This emphasizes the need for knowledgeable and experienced real estate professionals to take care of managing real property. This was especially true of the properties that needed more value added to attract tenants[7].

This sequence of events has driven many real estate development firms to reposition themselves as real estate asset and property managers.

Methodology

This thesis makes two points. First, I hypothesize that the characteristics of real estate development are different from those of asset and property management. I have derived this hypothesis from an analysis of current research. I summarize and graphically present the characteristics of a real estate development firm (RED), of a service firm, and of an asset and property management firm (APM). I determine that, of

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[4] Joseph J. Ori, "*The Growing Separation Between Real Estate Ownership and Management Expertise*", (Real Estate Review, 1988), p.51.

[5] Christopher B. Leinberger, *op. cit.,* p. 23.

[6] Joseph J Ori, *op. cit.,* p.51.

[7] Leon Shilton, "*Linking Quality to Incentive Compensation*", (Real Estate Finance Journal, Winter 1992), p.59.

several possible strategic elements, those critical to the success of a service business are certain activities of its employees (which I have termed "roles"), some specific capabilities of employees that need to perform the roles, and the measurements the firm applies to its output.

Second, I determine several of the most important strategic elements for repositioning a firm from a development focus to a focus on asset and property management. The theoretical importance of these elements is also derived from the literature. To test this second hypothesis, I first analyze some cases of firms that have successfully repositioned. I selected three companies for which there are written materials--company profiles, brochures, and case write-ups--discussing how they shifted their focus from development to asset and property management.

In addition, I present information about companies derived from interviews with top level management and asset or property managers in these firms. I present the information gleaned from these interviews, and test it against the framework suggesting the importance of the three strategic elements identified in the first part of the thesis.

The Stress of Change

A shift in business focus is stressful to any kind of organization. Schneider(1990) enumerates the challenges they must face: "People in the organization are required to change what they think and how they think about it; how they spend their time and efforts; what their new activities are; what new skills they need; how their performances are measured and supported; and so forth. People prefer equilibrium because it makes them feel relatively comfortable. They fear that rapid change may lead to high turnover. The employees of a firm undergoing such a transition may be hesitant and wary[8]".

Transwestern is an example of a real estate development company that recently changed its focus to the service business. Their successful shift to a service company required time and relentless, ongoing adjustment that was painful both emotionally and financially. The greatest stress was caused by two factors: first, accepting the trade-off of the high financial returns of development for the more stable business of real estate management services; and second, having far less decision-making authority over the

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[8] Benjamin Schneider, "*Alternative Strategies for Creating Service-Oriented Organizations*", (Service Management Effectiveness, Balancing Strategy, Organization and Human Resources, Operations, and Marketing), CA: Jossey-Bass Publishers, San Francisco, 1990.

real estate assets[9]. This was especially difficult since they had had a development company mentality. This basic strategy focus is only the first of the difficulties a repositioning development company must face.

Elements of Success in Real Estate Development Business

I have pointed out that the focus of development firms is on the production and marketing of its products. Based on the work of leading theoreticians, I have developed a description, called "the wheel of profitability and the sustainability of real estate development" represented diagrammatically in Diagram 1.2. This diagram maps onto Diagram 2.1, which will demonstrated the relationship between key elements in a service firm.

Diagram 1.2 presents the key characteristics in a successful production firm, in this case real estate development. Successful real estate development, like any other product-oriented business, must begin with the concept of quality (upper left hand box). Like a service firm, a development company must compete on the basis of the quality of its product as well as on price, and must be committed to high standards. However, what constitutes "quality" in a production business is different in that it is tangible and measurable against fixed standards and specifications. Also, these are derived from demand as perceived by the developer, rather than dictated by the demands of a specific customer. Once the nature of a project is determined, the development firm may then proceed to assemble the factor inputs necessary to construct it.

Three key inputs are required to ensure the smooth completion of a real estate development project: expertise, land, and funding. Three boxes in diagram 1.2 (top middle and right, middle right)represent the key factor inputs.

The first vital input to a development concept is finance or funding (top middle box). Since any real estate development requires a huge amount of investment a real estate developer has to create and maintain good relationships with lenders. Both construction and permanent lenders are looking for low risk but good return on their investment. A good reputation, high profitability in past endeavors and expertise are factors that inspire a lender's confidence. Access to capital enables a developer to start and manage a project through production and marketing smoothly.

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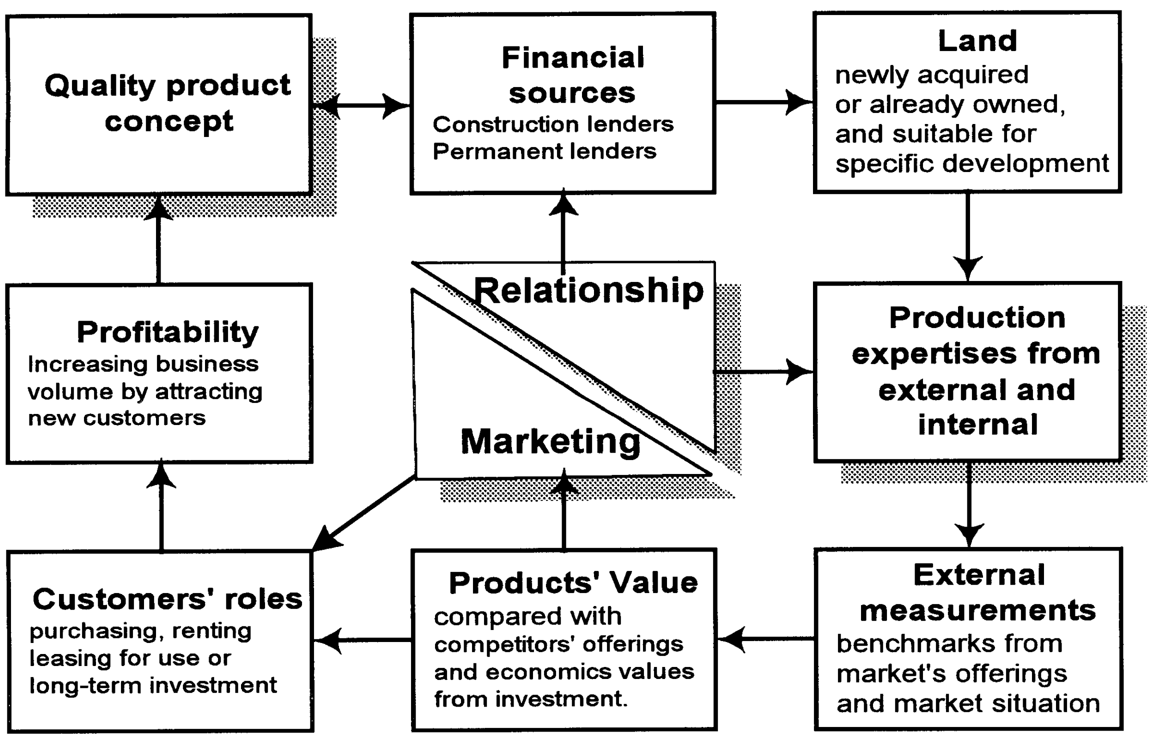
9 Donald William et al, *Repositioning Case Studies, Transwestern: Strategic Thinking in Volatile Markets*, (ULI- The Urban Land Institute, Washington, D.C.), 1992, p. 12.

The second requirement, land, (top right box) whether newly acquired or already owned, has to be suitable to a specific development. The suitability of a specific development depends on its location, its geography, its zoning, and regulation.

Real estate development requires input from many different fields of expertise[10]. (middle right box) A real estate development organization itself may include people with appropriate expertise, or the firm may hire consultants. A developer must depend on many other people , because he can not be an expert in all areas. Some examples of the specialists required are architects and engineers, lawyers, broker, contractors, suppliers, marketers, financiers, and managers. In addition, a developer is ultimately responsible for any omissions or mistakes made by these people. This requires him to have a high level of skill in coordinating and managing relationships with these professionals.

Diagram 1.2 The wheel of profitability and sustainability for real estate development



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10 Richard B. Peiser with Dean Schwanke, "*Professional Real Estate Development The ULI Guide to the Business*", (ULI,1992), p. 1 and 15.

Please note that the diagram also presents the linkages a developer must possess, to ensure good quality factor inputs to a project: one between himself and financial sources and one between himself and both external and internal expertise. A project well-grounded in all three inputs is likely to be more successful. A real estate development process can begin either with land purchase or market determination. In either case, the next processes will be: the development of the nature of the project, performance of feasibility studies, obtaining the necessary approvals, financing, marketing, managing construction, and finally selling the project or building[11, 12].

Quality products alone, however, do not guarantee the success of this type of durable and expensive product. External measurements (Exhibit 1.2, lower right) reflects the fact that real estate customers tend to shop around and compare overall specifications of listed products. They also take the market situation into account. The market situation includes level of competition in this business as well as the overall economy. The economy is the most influential factor in the demand for such durable goods. Real estate is a long-term investment which requires a good return value for the owner either in the form of money, usage of space, etc. Furthermore, it makes sense for customers to take opportunity costs into account when making such a long-term investment. Demand will diminish in a declining economy. When funds are scarce, money may be more valuable in hand than tied up in any asset. In this circumstance, potential buyers may prefer other uses for their money, to wait for the economy to recover, or for real estate prices to reach their nadir. That can make the large portion of demand disappear from the current market.

Marketing, presented in the middle of the diagram, plays the key role in approaching customers in real estate development businesses. Marketing brings the competitive advantages of each development to customers and facilitates the comparisons customers must make between properties. The huge amount of money required for long-term real estate limits the influence of "repeat business." for developers. Together with the market situation and other economic factors mentioned above, this determines another characteristic of the real estate development business: the profitability of increasing business volume by attracting new, rather than repeat, customers. The profitability (middle left, Exhibit 1.2) of a firm's activities, enhances its credibility in the eyes of lenders and customers.

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[11] Peiser, *op.cit.*, p. 17-18.

[12] Halbert C. Smith and John B. Corgel, *Real Estate Perspectives*, (Irwin Inc.,1987), p. 677-680..

An external influence (not indicated on the diagram) on every real estate business, both development and management is the effect of the real estate cycle. The effect of the economy on all real estate transactions produces upturn, maturity and downturn phases. The development business has to recognize and seize the opportunity of economic growth in a timely fashion. When the upturn occurs, lenders are more willing to invest in real estate development. Developers rush to supply new space in response to rising demand and rental rates. Unfortunately, construction takes considerable time, and slows developers real response time. Furthermore, construction is underway, the huge amount of the developer's investment is a major barrier to exiting the market. As the result, many developers are faced with the risk of losing their capital invested when the economy declines. As space is overbuilt, and rents and prices begin to go down, the real estate cycle moves through the phases of maturity and downturn.

Many developers engage both in development and operating processes , offsetting the risks of development by creating consistent income from management. However they often do not consider management to be their core business, only a stop-gap, until development opportunities once again arise[13].

One successful development project does not guarantee another[14]. Following purchase or rental, real estate customers often remain in a given location for a period of time. Therefore, developers have to attract new customers for the next project, using advertising and promotion to achieve this. Fortunately, new businesses enter the market every year, creating new demand for commercial space that developers can capture. However, demand for the real estate products in each period or phase is inconsistent. Up-to-date information on the market and its trends and continuous maintenance or repositioning of an asset can minimize or prevent obsolescence and depreciation. Changes in demographics, lifestyles, land use, and the economy will also change preferences for real estate products. Each of a developer's projects can vary widely in character, content, objective and potential for success.

Because real estate developers constantly need to attract new customers, they often focus their attention on relationships with lenders as well as both internal and external sources of expertise. A good relationship with lenders enhances the

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[13] Leinberger, *op. cit.*, p. 12.

[14] Leinberger, op. cit., p. 21.

opportunity to get funds. A good relationship with sources of internal expertise ensures the entire company's commitment to the project. A good relationship with external sources of expertise, such as designers, suppliers, and contractors, reinforces their commitment to a project.

From land speculation to the ownership of stable assets it is clear that the main focus of the real estate development business is on its product. The nature of the space is the primary concern of the customers; services are only a supplement. Land or buildings create income for development firms; in today's economy, much of the risk of capital investment is assumed by others and developers more often assume a merchant builder role. All of characteristics outlined above demonstrate the ways real estate development companies differ from APM firms, which are essentially service businesses. Specifically, RED firms focus much more on their design, quality production and marketing their product than front-line employee capabilities, quality service, delivery process and customer relationship management, the significant factors for APM businesses. These factors will fall into the strategic elements identified in following chapters as key to the success of service businesses, including an asset and property management firm's roles, capabilities, and measurements. The following sections compare some key factors within these three elements to raise some differences between the two types of business.

Comparison of Employee Roles in Real Estate Development firms (RED) and Asset and Property Management firms (APM)

In contrast to APM firms, RED firms:

1. Perform entrepreneurial activities.

Despite the fact that their projects are driven by market demand, RED firms perform their own objective analyses of products. Once the basic project conceptualization has been performed, they rarely act have to wait for others' decision about their products. As the result, RED firms do not place as much emphasis on identifying, analyzing and responding to their individual customer's complaint and satisfaction except when changes in the product are required. Project management becomes the main focus of their activities.

2. Do not emphasize routine interactions with customers.

Generally, the developer's interaction with customer is either pre-planning or marketing oriented activity rather than being focused on routine or repetitive service provision. Developer's products are more limited to customize once the production process is underway. This is also true in the case of "change orders" in which customer usually make specific decisions (if some customizations are allowed). In build to suit development, however, customers have a strong influence on the work throughout the entire development.

A Comparison of Employee Capabilities in RED and APM

A successful RED firms:

1. Must excel in supervision control to ensure quality of products.

The production processes of RED are separated from marketing and delivery processes. Product quality can be inspected or supervised at each major step of construction before delivery to customers. All of the fixed specifications that the developers believe to be valuable to their customers can be met by supervision, thus, emphasizing the importance of this ability to RED. The positive incentives that are centrally important to quality control in service business may also apply in development, but the central role of direct supervision remains key.

2. Focus on the importance of front-line employee in production rather than responsiveness and customization ability.

Since RED firms value the quality product more than delivery processes that interfaces with customers, they emphasize more of the design, production and marketing of the products. Traditionally the separability of marketing, production and delivery process has meant that companies may not design delivery processes and/ or provide enough facilities support, system and training to be responsive and customize in their interactions with customers. In today's environment, which is oriented to build to suit activity or design/build strategies, is changing this activity as well.

3. Do not possess accumulated and comprehensive customer database as their competitive advantages.

Two reasons make the accumulated and comprehensive customer database less valuable for RED firms. First, the subsequent RED project is not likely to have the same challenges as the earlier one because their inputs and situations for each project always change. Second is that markets and consumer preferences differ widely. In contrast, the APM can use such database for their ongoing improvement.

Comparison of Employee Measurements in RED and APM

A successful RED measures:

1. Performance based on fixed specifications for products and materials

A successful RED firms measures performance on the basis of project specific, objective criteria. It establishes standards for materials and methods which, if met, guarantee a high quality product.

Several experts in the field have said that quality control designed to meet fixed specifications is much easier to establish than controlling for high quality in an intangible, such as customer service. However, such claims must be guarded; in a highly sophisticated production situation, quality control may involve intangible factors as well.

2. Customer demand based on surveys of general needs, and current market offerings.

A successful RED firm offers customers a completed physical product. The decision to invest in a given design is derived from general information about demand. That original design decision ties the firm to a fixed goal which is difficult to alter, once the project is underway.

This is true even for the fee-developer who already knows the specific needs of its customers and builds to suit them. According to Dipasquale and Wheaton (1994)[15], only 14% of the space in owner-occupied US office buildings is used by the owners. Almost all successful RED firms continue to build for a typical, rather than a specific customer. A successful RED firm always adjusts its products to suit the current market situation, demand, and lifestyles in order to attract new customers. However, product specifications will vary much less over time than will the services required from management.

3. Short- to moderate-term performance more closely than long-term effects

[15] Denise DiPasquale and William C. Wheaton, *Text The Economics of Real Estate Markets*, (MIT CRE, December,1994), p. 11-16.

The goal of a typical successful RED firms is to realize large capital gains as quickly as possible, either by building and selling a project or by holding and managing it before it is sold. Economic conditions and the entry of new customers into the market create considerable uncertainty, which focuses the RED on short-to moderate-term goals. Real estate development is a high-risk, high-return business. Peiser (1990)[16] observes that a developer always feels that he or she could be better off making deals than managing property.

All of the factors discussed above suggest that significant changes are required in turning an RED firm into an APM firm. A real estate development company must reassess the roles, capabilities and measurements it has been applying to its business if repositioning is to be successful. In the next chapters I will describe the characteristics of service business, its important strategic elements, and the characteristics of asset and property management and its important strategic elements sequentially.

[16] Peiser, *op.cit.*, p.41.

Chapter 2: Service Businesses

A development business is like a manufacturing firm in that it focuses mostly on production and the marketing of its goods. In contrast, asset and property management firms are comparable to service businesses. A service business focuses on its employees, the quality of services compared to its customers' expectations, the delivery process of its services, and its management of relationships. This chapter details the characteristics of a service industries. A development firm repositioning toward asset and property management must recognize and develop the characteristics that typify a high-quality service firm.

Overview of the service industry

Service business are quite different from other types of businesses. For example, when a customer goes to a bank to perform a transaction, what he or she perceive as value is not only the result of the transaction, but also the politeness, accuracy, responsiveness, and efficiency of the tellers . In other words, the value accorded to the delivery process is just as important as the value attained as a result of that service. The customer's perception of value grows from the time service is delivered by a front-line employee to the time the delivery process ends and the result is attained. Because the activities of the employee serving the customer directly influence the customer's perception of the entire organization, the skills needed to provide those activities are very important.

Moreover, the quality of the service is very subjective; it depends on the individual customer. Each customer has individual expectations and is likely to judge each service relative to these expectations. An example of this is waiting time. When a person is in line waiting to buy a ticket for concert given by a favorite performer, he or she may be willing to stand in line for quite a long time, perhaps even hours. In contrast, if the same person goes to a bank to make a deposit, he or she does not expect to have to stand in line for even 15 minutes. He or she may feel dissatisfied by the situation and may not want to return to the bank again. However, if that person has used the services of the bank for a long time and become acquainted with all the officers, and every service received in the past has been satisfactory, the customer may be willing to forgive a long wait due to a computer failure. This example demonstrates the significance of customer loyalty--and the complexity of achieving it--in a successful service organization.

Elements of Success in Service Industries

To understand the characteristics of a successful service organization, I have examined the work of several key researchers, particularly Heskett (1987). The work of other researchers, including most notably Mills and Moberg (1990), Schneider (1990), and Collier (1990) underscore the validity of Heskett's concept of how a service organization operates. In this section, I propose a modified version of Heskett's "Quality Wheel", which I call "the Wheel of Profitability and Sustainability" (Diagram 2.1). I have modified the diagram in two ways. First, I have expanded it to incorporate concepts from Heskett's own later work. Second, I have amplified some of the elements to better demonstrate, in later chapters of this study, how his model works in the case of real estate and property management. I will explain how each element of the diagram support the others. The following section describes the strategies that leading researchers have identified to build and support each element of success represented in the diagram.

Heskett's "Quality Wheel" [17] expresses diagrammatically how success is achieved and maintained in a service business. In this model, five lines link five elements, forming a circle. The five elements are: great customer satisfaction, increased volume of business, great employee satisfaction, high employee motivation, and high level of service quality compared to customer expectations. Heskett used this model to show the direct links between high quality service, customer satisfaction and the resulting sales volume to the satisfaction derived by the person serving the customer. Factors of motivation and morale are key to management of a service organization. Heskett notes, "Naturally, the more motivated the employee, the better the service".[18]

Several other researchers have noted strategic elements that should made explicit when modeling the characteristics of a service business. For instance, Mills and Moberg (1990) stated that service organizations may offer commissions and contingencies for the purpose of aligning the employees' self-interest with those of the

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17 James L. Heskett, "*Lessons in the service sector*", (Harvard Business Review, March-April 1987), p.123.

18 *Ibid.*, p.123.

organization or controlling the output of the employees[19]. Collier (1990)[20] mentions that the actual performance of service delivery depends on several supporting factors, such as facilities, processes, equipment, employee incentives, training programs, and others. These two researchers together confirm the importance of capabilities support (obtaining capabilities) in maintaining high quality service.

Heskett himself, in later work, noted that the selection and development of employees, design of policies encouraging quality and performance measures all contributed to the fulfillment of customers' needs. In addition, Heskett (1990) also suggests that customer satisfaction can be increased by promoting the self-reinforcing relationship between the server and the customer[21]. He also demonstrated that , in the view of customers, a service firm's suppliers represent that service firms themselves . For example, cleaning service employed by a hospital represents the hospital itself to patients. Heskett emphasized that service firms can use these factors to lever value over cost to achieve more profit.

In addition, Schneider (1990)[22] adds that courtesy, communication and understanding customers are also needed to supply quality service. Schlesinger (1992)[23]observed that front-line employees need training and support including communication, performance management, and empowerment. A 1994 work by Schlesinger and Heskett, described a framework called "Service Profit Chain" which stated that: customer loyalty drives profitability and growth, customer satisfaction drive customer loyalty, value drives customer satisfaction, employee productivity (roles) drive value, employee loyalty drives productivity, employee satisfaction drives loyalty, and internal quality environment (capabilities support or obtaining capabilities) drives employee satisfaction.

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19 Peter K. Mills and Dennis J. Moberg, "*Strategic Implications of Service Technologies*", (Service Management Effectiveness, Balancing Strategy, Organization , and Human Resources, Operations, and Marketing, CA: Jossey-Bass Publishers, San Francisco, 1990), p.97.

20 David A. Collier, "*Alternative Strategies for Creating Service-Oriented Orgnisations*", (Service Management Effectiveness, Balancing Strategy, Organization , and Human Resources, Operations, and Marketing, CA: Jossey-Bass Publishers, San Francisco, 1990), p.234.

21 James L. Heskett, W. Earl Sasser, Jr., and Christopher W. L, Hart, "*Service Breakthroughs. Changing the Rules of the Game*", (The Free Press, 1990), p. 260.

22 David A. Collier, "*Strategic Implications of Service Technologies*", (Service Management Effectiveness, Balancing Strategy, Organization, and Human Resources, Operations, and Marketing, CA: Jossey-Bass Publishers, San Francisco, 1990), p. 234.

23 Leonard A. Schlesinger and James L. Heskett, "*The Service-Driven Service Company*", (Harvard Business Review, September-October 1991), p. 73-75.

In modifying Heskett's diagram to produce "The Wheel of Profitability and Sustainability of Service Business", I have included some of these elements .

Diagram 2.1 The Wheel of Profitability and Sustainability.

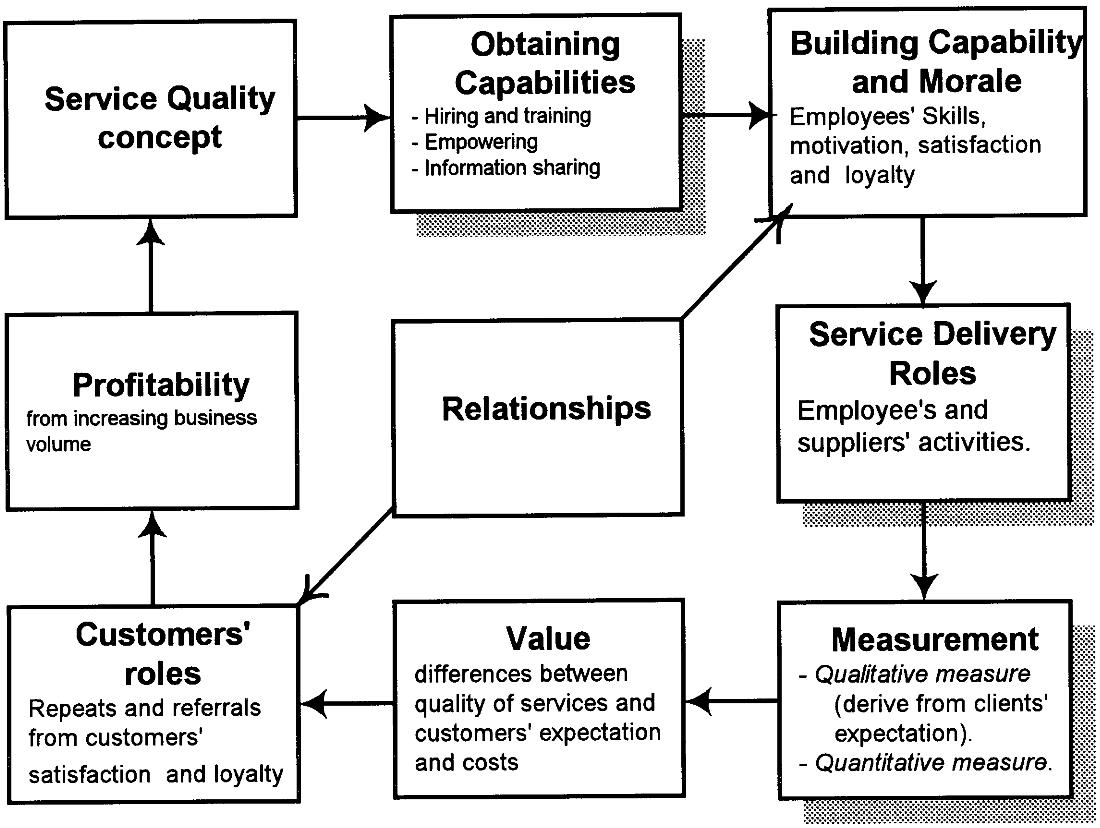

Diagram 2.1 captures the driving factors behind profitability and sustainability that distinguish a service business from a manufacturing business.

The first element in the modified diagram, as it was in Heskett's original conception, is "Quality." This is the critical concept from which any discussion of a successful service organization must begin. As discussed in Chapter one, service organizations compete on the basis of a commitment to quality. For quality-oriented firms, value equals the difference between service expected and service actually delivered. Quality is subjectively experienced by customers, and it is difficult--if not impossible--to inspect before delivery. For the same reason, it is difficult to measure.

The instillation of the importance of quality into the minds of all employees is critical to the success of organization. For this reason, it is necessary to outline carefully the basic elements of "Obtaining capabilities" (Upper middle box). This refers to the tools used to build and enhance the capabilities or skills required for front-line employees to offer quality services to their customers. These tools include recruiting, hiring, training, educating, information sharing, empowering, and motivating and providing incentives to employees[24, 25]. Recruiting and hiring are the processes of finding new staff members who already have the required skills for the organization, while training and educating enable existing staff members in the organization to develop their skills.

Once the firm has obtained personnel with the appropriate skills or capabilities, it can use processes of information sharing and empowering, and other incentives are to enhance the skills and attitudes of employees who interact with customers. Information sharing in the service industry is about acquiring and using customer information, preferences, and limitations and the specific details or knowledge needed to serve that customer[26]. The knowledge base of a service firm is accumulated gradually through experience serving customers learning their expectations[27].

The box in the top right corner, "Building Capabilities and Morale", includes skills, satisfaction, motivation and loyalty; these are a result of capabilities support[28]. Skills as mentioned earlier are the direct result of "Obtaining Capabilities" while satisfaction, loyalty and motivation are indirect results. Employee satisfaction results from the attention that they receive from management. Careful recruitment combined with other capabilities support builds a learning environment. Care in training and education helps an employee develop and learn. Information sharing and empowerment promote employee achievement, autonomy, and pride. Employee loyalty is a result of the employees being consistently satisfied with their organization. Loyalty motivates employees to do their best for the organization[29].

Motivation and empowerment involve giving front-line employees the authority to make decisions as they interact with customers. This is very important since, in the customer's mind, the front-line employee represents the entire organization[30]. Another

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24 *Ibid.*, Chapter 1, 10, 11.

25 Schneider, *op. cit.*, p. 127.

26 Heskett, Sasser, and Hart, *op. cit.*, p.185-186.

27 *Ibid.*, p.173-187.

28 Mills and Moberg, *op. cit.*, p. 103.

29 James L. Heskett et al. "Putting the Service-Profit Chain to Work", (Harvard Business Review, March-April 1994), p. 165.

30 Leonard A. Schlesinger and James L. Heskett, "*The Service-Driven Service Company*", (Harvard Business Review, September-October 1991), p.73-75.

important consideration is that an employee who serves a customer for a long time always best knows what the customer wants or what is of greatest value in the customer's mind[31]. By reducing the need for decisions to be made at supervisory levels, empowering front-line personnel speeds the decision-making process, thus enhancing customer satisfaction[32].

Empowerment may involve the provision of incentives--e.g. awards or bonuses--to stimulate employees to deliver high quality work. A typical motivational device is to identify an employee as employee of the month in recognition of quality performance. Another is the use of self-participation measurements. The use of incentives linked to performance is a way to promote quality in the employee behavior[33]. However, it is important to link incentives to long-term performance rather than short-term transactions because consistency and sustainability are the ultimate goals of a service business[34]. The details of motivation and incentives can be very complex and confidential within each company.

Morale building (upper right) includes the enhancement of employees' skills, satisfaction, loyalty and motivation; they contribute directly to high quality service (middle right) . A commitment to quality can be demonstrated by providing guarantees, and a recovery compensation to customers[35]. Such compensation is part of the commitment to quality that should also be promoted among the firm's suppliers and vendors. This requires both good relationships and good communication between the service organization itself and the providers. The outside providers are important because, in the customer's perception, they are also representatives of the service company. They, therefore, require the same kind of management as the front line employees. Services may be measured (lower right hand box) both quantitatively and qualitatively. Quantitative measurement such as accounting evaluates profitability by capturing revenue and expense data. Qualitative measurements of the customers' expectations and level of satisfaction are used to evaluate the services; the "value" of the services may be determined by dividing the quality of the services according to the customers' expectations by the costs incurred by the customers[36].

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31 Christopher Meyor, "*How the Right Measures Help Teams Excel*", (Harvard Business Review, May-June 1994), p.96.

32 *Ibid.*, p. 96.

33 Meyer, "*How the Right Measures Help Team Excel*", p.95-103.

34 Leon Shiton, *op. cit.*, p.51.

35 Heskett, Sasser, and Hart, *op. cit.*, p.185-186.

36 Heskett, Sasser, and Hart, *op. cit.*, p.2.

Customer satisfaction depends on the value of the services. As do employees, customers who are consistently satisfied by the services develop loyalty to the firm as they build a "relationship" with the employees who serve them on a regular basis. Satisfaction with service can lead the customers to refer new potential customers with to the firm. Heskett, Sasser, and Hart stated that repeat business and referrals are the keys to "Profitability" in the service industry[37].

The profitability of a service business can be leveraged by adding value to what the customer desires. Repeat business is advantageous in that the accumulated learning curve of serving existing customers helps make it possible to serve the customers better than their expectations while reducing the cost of generating new customers[38]. In other words, knowledge about a new client's preference usually is not enough to offer service to match his expectation. Referrals from existing customers also help expand the business volume without increasing costs for the server. Consistent high quality service can ensure both repeat business and referrals thus increasing both the sustainability and the profitability of a service business[39].

Put together, these factors create a complete loop or wheel of profitability and sustainability, as illustrated in Diagram 2.1. The "Profitability" box (left middle) is linked to the first one and second one, "Quality commitment" and "Obtaining Capabilities. The more profitable a service firm can become, the higher the level of quality the firm is likely to be able to provide, in building a strong staff and enhancing employees' skills and morale. Equipped with skills and morale, an employee will be committed to serving only quality, and so on. As the wheel turns, relationship management plays an important role in connecting the employees and customers, as well as the employees and the company or the suppliers. Together, these factors make the service business sustainable in the long run.

Strategies for Success: Becoming a Quality Service Organization

Diagram 2.1 presents the factors and their relationships in a successful service business. The three boxes with shadow represent keys components of a quality service strategy: capabilities, quality service delivery (roles), and measurement. Quality service organizations (QSO) are firms that commit to quality and succeed in both the

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[37] *Ibids.*, p.11

[38] *Ibids.*, p.11.

[39] *Ibids.*, p.5-14.

areas represented by these three boxes plus the management of relationships, the center box; together these produce the results of the other four: employees' capabilities and morale, quality service delivery, value, customer roles, and profitability. By achieving their goals in each of these areas, quality service organizations may achieve sustainability in the service business. In contrast, a firm that doesn't focus on the four main parts of service strategy (the boxes with shadow and the center box) will also fail to manage relationships well ; it will be less likely to sustain their service businesses. In sum, successfully implementing roles, capabilities, and measurements, is what distinguishes a QSO from an ordinary service organization.

In this study, I explore three elements of success (termed for the purposes of this study service delivery roles, capabilities, and measurements) in service organizations in general, and in asset and property management specifically. I selected these elements based on my reading of the literature and discussions with managers of real estate firms involved in repositioning. In these preliminary investigations of the problems of repositioning, it appeared to me that these elements were keys to success in this endeavor. One purpose of this study is to test this hypothesis. The distinguishing characteristic of a QSO, excellence in service delivery roles, skills, and measurement apply to the whole organization, not just the employees or customers. Another part of this hypothesis is that these three elements are interrelated: The service delivery roles are activities that create value for the clients and the organization itself. Capabilities are skills necessary to perform the roles effectively and efficiently. Measurements are tools to keep track or evaluate the performance of the roles and capabilities with the goal of constantly increasing quality. The following three sections detail the nature of excellence in these three areas.

Service Delivery Roles

Table 2.1 presents the roles of successful service concept positioning and delivery in a QSO. These roles are activities that create value for the clients, and the organization itself. Each of the eleven activities are described in greater detail below.

TABLE 2.1: **Employee Roles in a Quality Service Organization**[40, 41, 42]

Employees in a QSO work to:
1. Identify customer needs and expectations.
2. Have a well defined, focused, and positioned service concept.
3. Create and commit to a measurable standard suited to customer needs and expectations.
4. Design processes and provide capabilities support to achieve the standard.
5. Educate and manage users of the service.
6. Communicate and implement the standards company wide.
7. Focus and offer tangibility and visibility of services.
8. Invest and put efforts into building service reliability.
9. Build loyalty among customers, employees, and suppliers.
10. Create and manage customer relationships.
11. Assign skillful employees to service recovery, and empower and trust his or her judgment.

Heskett writes that a quality service firm has to *understand customer needs and expectations* in three aspects: customers' psychographics, how to prevent perceived risks, and failure indicated by an "emigration pattern". Psychographics are the way people think, feel, and behave. Perceived Risk are the result from lacking of information and knowledge about the service. Emigration pattern of customers determine causes the unsatisfactory service that makes existing customers leave[43].

After learning its customers' needs and expectations, quality service organizations must *define, focus and position a service concept* to suit that information. This knowledge gives the organization a competitive advantage over other firms, which is important for maintaining quality and sustainability in the service industry. Defining, focusing, and positioning the service concept requires a quality service firm to effectively choose an area of service suitable to their resources and helps them

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40 *Ibids.*, p.260-275.

41 Collier, *"Measuring and Managing Service Quality"*, p.245.

42 Schneider, "*Alternative Strategies for Creating Service-Oriented Organizations*", p. 132.

43 Heskett, Sasser, and Hart, *op. cit.*, p. 34-36.

allocate or focus the resources to serve specifically chosen customers[44]. Having a well defined service concept also helps a firm to segment its customers, services and goals to achieve quality in the perception of its customers.

A QSO can *translate its customers' needs and expectations into measurable dimensions or standards.* For example, a fast food restaurant may guarantee deliver of food within a specific delivery time; they may recover any missed targets by not charging customers for food that is delivered late. According to Collier (1990)[45], a QSO can measure, monitor, and evaluate the customer's perception of service quality via techniques such as customer surveys, focus-group interviews, and customer-service comment cards. Service quality standards are key parameters in showing that a company is entirely committed to quality with it: equipment, process, staff capacity decisions, and so forth.

The way a quality service organization serves customers usually has gone through intensive thinking and planning. QSO knows that service processes affect the value of service[46]. These firms design processes to minimize the possibility of serving customers below the set standards. The use of capabilities support also helps to fine tune employees' ability to achieve the set goals. A good example of this is McDonalds[47], an international fast food franchise. McDonalds designs its french fry processes and equipment so that any employee can serve a definited amount of well cooked fries quite fast, thus meeting customers' expectation every time.

Quality service organizations understand how important customer expectations are for their businesses. They *manage their customers by educating them about how to use the service most effectively.* For example, a QSO may provide seminars or specific manuals telling customers how to use equipment correctly without problems of frequent breakdown, or how to use the services most expeditiously[48]. A QSO can also manage customer expectation. McDonalds, which has standardized its services in all

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44 Heskett, Sasser, and Hart, *op. cit.*, p. 52-53.

45 Collier, *op. cit.*,p.243-244.

46 Heskett, Sasser, and Hart, *op. cit.*, p.261.

47 David C. Rikert, *"McDonald's Corporation (Condensed)"*, (Harvard Businesss School's Case Study,1980), p.8.

48 Mill and Moberg, *op. cit.*, p.108 .

its stores, has thereby taught its customers exactly what to expect in any McDonalds location[49]. Quality service firms also realize how customers add uncertainty to the processes and results of the services, and try to minimize this uncertainty with process management. For example, a firm may ask its clients to perform some processes of workflow, such as filling out forms, entering identification numbers into ATM machines, etc[50]. These processes become the responsibilities of the clients themselves. This process can reduce the alternatives in the choice of services and thereby reduce the uncertainty brought by the customers[51].

Clearly communicating standards of service ensures that all employees share the company's goals. This is especially important in service businesses because it is impossible to inspect the "product" prior to delivery[52]; every step from the first implementation of the processes to the final delivery is critical. This message should be reinforced by management attitudes, policies, rewards and supporting facilities; it represents a commitment on the part of all management levels[53], and promotes enhanced skills, good attitudes, and high morale.

Quality service firms must work to *make their deliverables tangible and visible.* These characteristics can be achieved through providing amenities over and above customer expectations, for example, providing free gift wrapping or free valet parking. Schneider (1990)[54] mentions that quality service organizations try hard to make service tangible by providing physical evidence, such as having attractive physical facilities, or making sure that their front-line employees have good personalities. Other strategies that can provide tangibility and visibility to services include giving customers easy access to servers quick responses to their requests.

Reliable service leads to repeat business and referrals from existing customers. When customers can rely on their existing provider, there is no reason for them to

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49 David C. Rikert, op. cit., p.3-8.

50 Mill and Moberg, *op. cit.*, p.109 .

51 Mill and Moberg, *op. cit.*, p.109 .

52 James L. Heskett et al. "Putting the Service-Profit Chain to Work", (Harvard Business Review, March-April 1994), p. 167.

53 Schneider., *op. cit.*, p.28.

54 *Ibid.*, p.132

switch to another. A QSO exerts considerable effort to be perceived as reliable by consistently providing accurate and on-time services[55]. Heskett notes that a QSO achieves reliability through good selection and training of employees, by rewarding employees for consistent delivery of quality service, by acquiring superior technology or service delivery systems, and by adopting a single-minded emphasis on customer satisfaction[56].

A QSO realizes that *customer loyalty, employee loyalty and supplier loyalty* are all very important to an organization's commitment to quality[57]. Consistent efforts to provide quality services will gain customer loyalty. Employees' loyalty can be developed first by good selection, development, and assignment of personnel and by adopting good methods to measure performance and recognize superior employee performance. In contrast, regular service firms usually do not focus on customers' expectations, so their level of customer loyalty is lower. In addition, these firms don't realize the importance of their employees' loyalty to their business and don't put enough efforts into capabilities support. They fail to maintain their employees' morale and incur many losses due to a high turn-over rate, which also deters or prevents the development of a relationship between the customer and the server.

Besides reliability and loyalty, *the relationship between customers and the service provider is another element that brings in repeat business and referrals.* In his 1990's article *Determinants of Service Quality*[58], Schneider mentions several dimensions that a QSO can use to build a relationship between the customers and itself. Three of these dimensions are key to creating and managing customer relationships. The first dimension, "courtesy", refers to the politeness, respect, consideration, and friendliness of the contact personnel. The second dimension, "communication" , refers to keeping the customers informed and listening to them. The last dimension, "understanding", refers to learning the customer's specific requirements.

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55 *Ibid.*, p. 129.

56 Heskett, Sasser, and Hart, *op. cit.*, p.102.

57 Heskett, Sasser, and Hart, *op. cit.*, p.231.

58 Schneider., *op. cit*, p. 132.

A QSO assigns skillful persons to service recovery, and empowers and trusts their judgment[59]. Even in an organization that is highly committed to quality and has a well designed service support system, unexpected problems may occur at anytime. The uncertainty of the customers or other external factors could be the cause of the failure. Effective service recovery after a failure helps maintain customer loyalty to the service provider. A QSO assigns skillful persons to these areas to make sure that it can solve any problems that arise.

Capabilities

A second key component of a Quality Service Organization is its capacity to perform its roles effectively and efficiently. Table 2.3 presents the capabilities that distinguish a Quality Service Organization from an ordinary service organization. Each of these five key capabilities is described below.

TABLE 2.2: Distinguishing capabilities of a Quality Service Organization [60, 61, 62, 63, 64]

The managers of a QSO must

1. Possess thorough knowledge of service characteristics.
   - Possess interdisciplinary knowledge.
   - Understand customer's perceived value, quality and the ways to leverage value over cost to provider and achieve more profit.
   - Recognize that the relation between profitability's of service to service provider and value to the customer can be reinforced.
2. Understand aspects of organizational capabilities.
   - Able to encourage timely decisions by a less hierarchical organization.
   - Replace supervision with positive incentives.
   - Restrict to attitude of personal behavior and of teaching.
   - Develop and retain staff members by giving them opportunities to learn and grow.

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59 Christopher W. Hart, James L. Heskett, and W. Earl Sasser, Jr., *"The Profitable Art of Service Recovery"*, (Harvard Business Review, July- August 1990), p. 153- 156.

60 Schneider., *op. cit.*, p.28.

61 Collier, *op. cit.*,p.243-244.

62 James L. Heskett et al. "Putting the Service-Profit Chain to Work", p. 165.

63 James L. Heskett, *"Lessons in the service sector"*, (Harvard Business Review, March-April 1987), p.123

64 Heskett, Sasser, and Hart, *op. cit.*, p.5-10.

3. Utilize upper management capabilities.
   - Use managers as idea-generators, trainers and relievers and in business development roles rather than supervisory roles.

4. Understand aspects of quality and cost of failure.
   - Understand the true costs of poor quality and failure.
   - Recognize the value of quality maintenance and improvement.
   - Elicit and analyze customer complaints.
   - Understand the value of recovery.

5. Possess aspects of competitive capabilities.
   - Have a comprehensive customer database.
   - Have hard-to-duplicate network or technology as strategy advantages.
   - Know how to increase reliability, and reduce perceived risk.

In the service industry, the value of the product lies not only the result of the service but also the delivery process. These two elements are composed of the effects of marketing, psychology, operations, resource management, communications, relationship management, and so forth. Interdisciplinary knowledge is needed to manage such a business. Lack of knowledge in a key discipline may result in failure to provide customer satisfaction, resulting in the loss of repeat business and referrals and the declining profitability of the business.

It can be proven that quality service organizations understand customer value, quality and the ways to leverage value over cost to achieve more profit. Such firms know that adding more value will result in the customers' perception of quality. The resulting increase in business volume in turn, can reduce cost for the firms of acquiring new customers and getting information about those customers. When the customers' perception of value increases, so does their loyalty, and greater profit can be achieved. In contrast, regular service firms see adding value to customers only as a cost, with a negative effect on profitability[65].

Quality Service Organizations manage physical and human resources to ensure that they are able to meet their clients' expectations. They encourage timely decisions in many ways. Two examples are organizational downsizing[66] (especially at the middle levels), and empowering front-line employees. Great care in selection and training of

[65] Heskett, Sasser, and Hart, *op. cit.*, p.7-8.

[66] Heskett, Sasser, and Hart, *op. cit.*, p.194, 225.

employees ensures the quality of the personnel. This enables the firms to replace active supervision with positive incentives [67](positive incentives includes no punishment in case of failure). By rewarding and recognizing people for their devotion to quality and proportioning the benefits and incentives to encourage both individual and team performance, a positive attitude towards quality is developed[68]. Giving employees the opportunity to learn and grow also strengthens the commitment to quality.

Quality Service Organizations also create a supportive environment to build an attitude of professional behavior and teaching; in doing so, they reduce both regulation and the managers' roles of controller and police. In its place, a QSO transforms the managers' roles to that of idea-generators and trainers and relievers when busy seasons come. An indirect advantage of empowering employees, establishing a positive employee attitude, and replacing direct supervision with positive incentives is a decreased need for upper management to perform supervisory tasks[69]. This frees upper management to think about strategic planning and other useful activities at the core business, which, in turn, is likely to result in greater profits for the organization.

Quality service organizations understand the costs of poor quality and failure to provide quality. In the viewpoints of these firms, failure to provide quality not only incurs the costs of losing customers, but also result in decreasing the level of employee satisfaction and morale[70]. Consequently, these firms recognize and actively promote the value of quality maintenance and improvements. In the service industry, poor quality of service may not generate the same types of complaints from customers as in the manufacturing industry[71]. This makes the measurement of failure very difficult and improvement or recovery even more difficult. Successful firms, therefore, make a major effort to elicit and analyze customer complaints. Heskett (1990)[72] points out: "Nothing is better than performing a service to customer's satisfaction at first, Nothing is worse than failing to elicit a response from a dissatisfied customer".

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67 James L. Heskett et al. *"Putting the Service-Profit Chain to Work"*, p. 166-169.

68 Heskett, Sasser, and Hart, *op. cit.*, p.55.

69 Heskett, Sasser, and Hart, *op. cit.*, p.236.

70 Heskett, Sasser, and Hart, *op. cit.*, p.75-85.

71 Collier, *op. cit.*,p.243.

72 Heskett, Sasser, and Hart, *op. cit.*, p.102.

Quality Service Organizations understand the importance of the recovery process for retaining customer loyalty when failure occurs[73]. The loss of customers, to a QSO, means loss of repeat and referral businesses opportunities. It leads to increasing costs to attract new customers and acquire information about them; moreover, having new customers increases the possibility of another failure, since the company will know less about how the satisfy a new customer. Therefore, a Quality Service Organization usually invest in the recovery with the goal of 100% quality. This is the reason why they always assign skillful employees to the recovery process, and empower them and trust their decisions to perform the recovery process successfully.

Regular service companies, on the other hand, consider the costs of poor quality and failure to provide quality only as the costs of losing customers. As a result, they spend less on quality maintenance and improvement and place little emphasis on eliciting and analyzing customer complaints. They also do not see the value of recovery; and therefore, they don't assign skillful employees to the recovery process.

Quality Service Organizations focus on a service support system designed to enhance the capabilities of their front-line employees. They carefully select and train their employees because they understand the importance of their existing and potential skills to the service business. As a strategic advantage to provide better quality service, a QSO maintains a comprehensive customer database and competitive networks or technology[74]. The acquisition of such a database and network can be a barrier for the new comers.

Furthermore, a Quality Service Organization realizes that reliability and perceived risk greatly influences existing and new customers. Consequently, these firms work hard to insure and increase reliability. They reduce perceived risk by managing customer expectations, developing expectations in advance and designing the service to fulfill promises[75]. For example, automatic telling machines require bank customers themselves to choose a desired transaction. Thus, they control the transaction, and receive exactly the outcome that they had expected. A potential customer's first experience with a bank may occur through this process, rather than through a front-line employee. Later interactions, by telephone or face-to-face, however will be crucial to reinforce the first experience.

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[73] Heskett, Sasser, and Hart, *op. cit.*, p.100, 108, 110.

[74] Heskett, Sasser, and Hart, *op. cit.*, p.176.

[75] Heskett, Sasser, and Hart, *op. cit.*, p.42-43.

Measurement

A third service strategic component that Quality Service Organizations need to focus on is measurement. Heskett (1990, p.73) points out " What gets measured is what gets managed". measurement can also be viewed as a tool to keep track of performance or to evaluate and motivate employees. It can be used to improve performance and the capabilities of the entire company. The distinguishing measurement characteristics of a Quality Service Organization are summarized in Table 2.4

TABLE 2.4: Distinguishing Measurements of a Quality Service Organization[76, 77]

The measurements of quality developed by a QSO are

1. Based on customers' expectations and satisfactions and on quality rather than on quantity of works.
2. Established from the front-line's participated self-evaluation.
3. Emphasized on long-term performance over on short-term transaction.

A QSO's measurements are based mostly on customer expectations and satisfaction and how problems are solved rather than on the quantity of work. James L. Heskett (1990) notes: "Measurement of service quality that does not include customer expectations misses the point"[78]. Quality service firms put a lot of effort into studying customer expectations and satisfaction. They use these findings as quality determinants for measuring their services. The methods used to do this may be surveys, questionnaires, etc. Determinants of service quality parallel the activities outline in Table 2.1, and discussed above[79].

The applicability of each determinant will, of course, vary according to the kind of activity being measured. Each kind of activity must be accompanied by a benchmark derived from customer satisfaction. Quality Service Organizations use these

76 Meyer., *op. cit*, p. 97.

77 Schneider., *op. cit*, p. 132.

78 Heskett, Sasser, and Hart, *op. cit.*, p.6.

79 *Ibid.*, p132.

benchmarks to periodically evaluate the determinants. The goal of a quality service firm is not only to meet, but to exceed their customers' needs.

Quality service organizations establish measurements through participatory self-evaluation. This approach places the responsibility for evaluation in the hands of those who know the task and how to achieve it best, encouraging "buy-in" on the part of team members[80]. Self-determined measurement is well-suited to services in which output is difficult to characterize by one measure (highly customized tasks, or those requiring a high level of judgment on the part of service personnel or extensive contact with customers)[81].

Quality service firms tie incentives to long-term performance measurement. Profitability of a service firm depends on long-term performance which indicates repeat and referrals of business[82]. In order to achieve these goals, these firms also need to have measurements that track their long-term performance. For example, an evaluation form sent to the customers once a year should ask questions not only about the quality of service but also the consistency of that quality.

The measurement activities of quality service firms are also well proportioned to measure and promote both individual and team performance. Quality service firms realize the value of both individual and team performance for the organization and the employees' morale. Such well-proportioned measurements will increase productivity and concentration of all workers to only achieving the firm's shared goal[83].

Summary

In this chapter, I have described the nature of the service industry to use as a framework for analyzing asset property management in the next chapter. Service organizations focus on people, quality of performance compared to customer satisfaction, the delivery process, and relationship management.

I further developed the model proposed by Heskett (1990) by drawing on the work of other leading theoreticians (See Diagram 2.1). This model was used to highlight the main characteristics of the service business: capabilities supports,

80 Heskett, Sasser, and Hart, *op. cit.*, p.129.

81 Meyer., *op. cit*, p. 97.

82 James L. Heskett, "*Lessons in the service sector*", (Harvard Business Review, March-April 1987), p.123.

83 Christopher Meyer, "How the Right Measure Help Team Excel". (Harvard Business Review/ May- June, 1994), p. 97-103.

employees' roles, measurements, customers' roles and relationship management. Good management of these strategic elements results in raising employee morale, the quality of service, the value of service and profitability. Firms that focus on all these strategic elements are able to achieve and sustain success and become quality service organizations.

I then presented the distinguishing characteristics of a Quality Service Organization in detail. These characteristics were categorized into three strategic elements in a firm's success: service delivery roles, capabilities and measurements. Detailed attention to each strategic element can enable a service firm to attain sustainability. These strategic elements will be important in our investigation of asset and property management firms below. The next chapter argues that asset and property management is a type of service business, and must follow the strategies of a Quality Service Organization in order to be successful.

Chapter 3: Asset and Property Management

Overview of Asset and Property Management

In chapter two I described the nature of a service business and proposed a model to use in our investigation of asset and property management. In this chapter I will begin by giving a brief description of the scope of services or roles of asset and property management. Then, I will explain each of the functions of asset and property management and point out the similarities between asset and property management and other service businesses using the framework from Chapter Two.

Today, the scope of asset and property management services overlaps and varies widely. Some real estate owners may already possess the capabilities required to become real estate management companies; such firms would need only to add some specific types of services to enter the management business. In addition, many asset and property management firms developed from other real estate- related businesses. Some began as brokerage or finance companies; others grew out of consulting, development or construction firms. As these developed into management firms, they used their existing skills and experiences as the backbone of their service offerings. At the same time, they attempted to expand their scope of services to respond to their clients' needs. As a result, the scope of services offered by these companies is quite varied.

Although the scope of services offered by either asset management or property management firms seem to overlap, one can make the generalization that asset management operates on the macro scale while property management operates on the micro scale[84]. In other words, an asset manager works closely with the owner-investor to maximize return on long-term investment capital. He or she shapes strategies to determine and monitor every aspect of operations over the period during which the investor client owns and controls the asset. An asset manager can, at the same time, be responsible for a substantial amount of assets in a portfolio[85].

In contrast, a property manager is likely to follow a set strategy and work closely with tenants and other suppliers or deal with the day-to-day operations. He or she implements the strategy and reports the results to the asset manager or owners.

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[84] Interview of Gail Mcdonough, a former asset manager during the year 1991-94.

[85] *Ibid.*

A property manager may suggest some changes in the action plan or strategy to suit the situation and needs of each property. Due to the significant number of details involved, a property manager focuses on only a few assets, possibly fewer than five[86]. These facts suggest that both asset and property managers have to work together as a team to achieve mutual benefits and the goals of their ultimate client, the investor owner.

The scope of services offered by asset and property management firms can be categorized as in Table 3.1:

EXHIBIT 3.1 Typical service areas of asset and property management[87, 88, 89, 90]

<u>**Asset Management**</u>	<u>**Property Management**</u>
_ ***Strategic planning*** of the following aspects:	_ ***Implementation of the Strategic Planning***:
- <u>*Marketing*</u>*, market.analysis, positioning the asset, promotional campaigns* and advertising*	- <u>*Marketing*</u>*, positioning the property, coordinating other marketing actions, reporting the results to the asset manager,
- <u>*Physical Aspects**</u>, monitoring the condition of the assets, determine capital investment (requirements) and strategies to maintain, upgrade or renovate assets.	-<u>*Physical Aspects**</u>, maintenance* and facilities management, vendor selection and supervision, day-to-day operations management (on-site).

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[86] *Ibid.*

[87] *Ibid.*

[88] Carol Schimpff and Robert M. Fair, "*The Emerging Science of Real Estate Asset Management*", (Real Estate Finance Journal/ Summer 1989), p.10-16.

[89] Ron Hickman, "*The Property Business Plan and What Should Be Demanded of the Property Manager*", (Real Estate Finance Journal/ Fall 1989), p.84-87.

[90] Stanley L. Iezman and Nicole A. Ihlenfeld, "*Real Estate Asset Management*:, (Real Estate Review/ Summer 1991), p.58-63.

- *Leasing*, lease analysis, preparing standard lease forms and conditions and leasing strategy, negotiation of strategy, leasing assignment* of major tenants and developing a tenant relationship and retention* strategy.	- *Leasing Assignment**, and coordinating move-ins, - *Monthly operating statement preparation*. - *maintaining the tenant relationship** and retaining tenants*. - *Personnel*, management on site.
_ ***Financial planning and control,*** financial analysis, debt structure, funding, disposition and acquisition, risk management of the real estate portfolio and cashflow management strategy. - *Cashflow*, projection, feasibility analysis, budgeting expenses and maximizing return. - *Periodic review* of accounting reporting or financial performance of each property and reporting the information to the asset owner.	_ ***Financial services*** - *Tenant billing and collections*, - *Payment and control of property* -*Evaluation and reporting potential cashflow problems* to asset managers or owners.

Table 3.1 summarizes the services that distinguish an asset manager's responsibilities from those of a property manager and some of the similarities or overlaps between the two. The services marked with a star (*) may be provided by either property management or asset management. Which group provides them depends on the requirements of the owner and/or the agreement between the asset and property managers of each project or portfolio.

Regardless of the variety of services, both asset managers and property managers work closely with investor-owners and tenants. Since the focus of this thesis is not the differences between the two types of management, but rather the service aspects that they share in common, both types of management businesses will be referred to as asset and property management firms (APM) for the rest of the thesis.

Asset and Property management as a service business

Using the model of service businesses outlined in chapter two, I will now demonstrate that asset and property management is a service business by showing that the wheel of profitability and sustainability (See Diagram 2.1) applies to it.

1. Capabilities or Skills Support (Obtaining Capabilities)

Asset and property management uses the same *capabilities support* tools as other service businesses do. Segal (1990)[91] states that quality asset and property management services train and educate staff using standards derived from customer needs and preferences. Training provides multiple benefits, resulting in low turnover, high quality of service, and high profits. Training involves taking information from tenant surveys to target and remedy areas where service is deficient, thereby improving the quality of service. It also develops the manager's own quality initiatives and their employees' morale.

APM also use *hiring and incentive* methods derived from customer needs and preferences. Quality-oriented firms recognize the importance of customer service skills and how the personality of the asset manager affects quality; they put great effort in hiring[92]. In addition, asset and property management firms use performance standards to determine bonuses as incentive and motivation tools to achieve quality[93].

One Boston-based APM, uses *information sharing* by linking everyday job management with groupware and a LAN system. This makes communicating, controlling and decision making more effective, thereby empowering staff in carrying out their success.

2. Employee Capabilities and Morale

Employee's *capabilities and morale* are a result of capabilities or skills support. Segal (1993) says that the continuity of care, opportunity to learn and improve, and supporting tools builds the employees' capabilities and morale. Furthermore it lead to the employees' attitude of quality which provides opportunities to improve performance. Diserens (1992) observed that "When employees understand the meaning of quality, and are trained and equipped to provide it, they will have the confidence to execute it.[94]"

3. Quality

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91 Andrew T. Segal, "*Absolutely Positively Satisfied. What Asset Management Can Learn from the Quality Revolution*", (Urban Land , February 1992), p.41.

92 *Ibid.,* p.41.

93 *Ibid.*, p.42.

94 John H Diserens,., "Maximizing Value through Quality Service", MIT/ PREA Presentation, June 29,1992, p.1.

The term "employee" refers to both the asset and property manager and his or her assistants who serve customers (both investor owners and tenants). Olson (1993)[95] states that APM firms with a dedication to quality of service have better satisfied employees who are more dedicated to their property management responsibilities. This continuity of employee satisfaction stimulates loyalty to their duties, organization, and customers; thus, it influences and ensures that they provide only high quality services.

4. Measurements

In APM firms, *qualitative measures* are derived from the expectations of tenants that the space they purchase in a building will be maintained and kept operating competitively in the market. Such measurements are also derived from the expectations of owners that the chosen building management firm can maintain and bring in the best possible cash flow (compared to the market) and will actively pursue ways to improve the value of the building. The correspondence between satisfying tenants and satisfying the owners is reflected in a statement from La Salle Partners Asset Management[96], a national real estate investment firm based in Chicago: Asset and property management firms that retain satisfied tenants have the greatest opportunity to achieve the positive cash flow and raise the value of the building, thus also meeting the expectations of the owners.

5. Value

In asset and property management, *value* is derived from the differences between the quality of service and the tenants' expectations and costs. Tenants expect to conduct their business in an attractive, well maintained, professional environment within competitive market costs. In order for the APM to retain tenants beyond the initial lease term, tenants must be treated as valued customers. Customers value responsiveness, care, and attention from the manager. The asset and property

[95] Kristin Erin Olson, *op.,cit.*, p. 38.

[96] Robert C. Spoerri, "*INSIDE AMG: THE QUEST BEGINS*", (THE AMG MIRROR, March 1992) p.1.

management's ability to anticipate services that will be of value to specific tenants or add amenities to the normal service is very important.

6. Customer loyalty and profitability

Customers communicate their needs and preferences to asset and property management. Their level of satisfaction is a result of the attitude of the staff when working with them, of a secure and comfortable environment, of prompt responses to service requests, and of a sense of being appreciated and treated fairly. The level and consistency of quality to maintain tenants' satisfaction is dynamic. Asset and property management firms constantly collect and evaluate information and improve their own performance to retain their tenants' and investor owners' loyalty. Tenants' and investors' loyalty is as important to asset and property management it is to other service businesses since it leads to repeat business and referrals. Repeat businesses and referrals from existing customers builds a solid quality franchise and sustains the profitability of the firm.

7. Relationship Management.

Asset and property management also requires relationship management. Relationships are built on loyalty between the employees and the organization, the organization and its customers, and the employees and their suppliers. Relationship management itself can create loyalty. Relationship management is a tool which allows understanding of tenants' or owners' preferences and the commitment to quality.

Successful asset and property management firms as QSOs

Asset and property management firms clearly share some critical characteristics with other service businesses. The factors in the success of APMs, therefore, parallel those of the Quality Service Organizations (QSOs). As described in Chapter Two, any successful service organization, including asset and property management firms, must focus on the three strategic elements: roles, capabilities, and measurements. The following sections detail how these elements can be managed to ensure success for an APM:

Service Delivery Roles of a successful APM

1. Identify customer needs and expectations.

Before entering the market, an APM firm must determine market demand. Once in the market, it must continue with this activity, especially in the marketing and leasing functions. It must determine the target tenant mix and study demographics to identify tenant needs[97]. A successful APM surveys and performs market analysis of the rent and leasing structures offered in the market and competitors' offerings to determine the rough expectations of the tenants and investor owners. When an APM firm is hired, it must first clarify the investor owners' expectations from management services.

2. Have a well defined, focused, and positioned service concept.

After defining its opportunities, a successful APM needs to look at its strengths and weaknesses to define the areas of service in which it can compete successfully in the market. Given its limited resources, specialties, and past experience, an APM should allocate its resources to the area of its strengths, where there is the greatest demand or least competition. For example, an APM can position itself in the market by offering only services that focus on a specific project type and specific geographical area to specific customers. Rategan (1992)[98] concurs with Segal (1991)[99] in that a successful APM must identify a focus for the firm's quality program; set goals to make the tenants happy; and comply with the firm's systems. A clear definition of the firm's strategic planning services is also valuable in positioning a given property. Defining the service concept makes it possible to measure the firm's performance and to establish quality operations standards within the entire company.

3. Create and be committed to a measurable standard suited to customer needs and expectations.

A successful APM firm translates what it has learned about its customers into measurable quality standards or benchmarks to achieve. For instance, it might set goals for responsiveness (acting as requested within a specific time), courtesy (listening with respect and making an effort to understand), and so on[100]. The tools an APM

[97] Ron Hickman, "*The Property Business Plan and What Should be Demanded of the Property Manager*", (The Real Estate Finance Journal/ Fall 1989), p. 85.

[98] Cathie Rategan, "*Total Quality Management*", (Journal of Property Management, September/October 1992).

[99] Andrew T. Segal, *Absolutely Positively Satisfied What Asset Management Can Learn from Quality Revolution*, (MIT CRE Thesis, 1991), p. 27.

[100] Segal, *op. cit.*, p.32.

uses in this role might include hiring an external researcher to do a *Tenant Satisfaction Survey* or having an auditor report scores for each property. In addition, a successful APM firm must set standard leases and conditions corresponding to market offerings, and tenant expectations.

4. Define processes and provide support to achieve the standard.

A successful APM firm must define the processes in an action plan for the property manager, such as how to negotiate free rent and improvements, or how to coordinate and pay for moving expenses. It must also provide support, such as determining the conditions for putting the major tenant's name on the building, or determining the appropriate mix of tenants to help the property manager in decision making[101]. Similarly, a property manager in a successful APM firm must coordinate the actions for his team, such as directing the maintenance and replacement schedule of common facilities.

5. Educate and manage users of the service.

A successful APM establishes customer expectations by getting tenants to participate in some decisions about the building and using their comments to customize services. It also provides direction for the use of common facilities for the mutual benefit of both users and property management. For example, property management may provide a fixed parking space for each tenant. That way, it can manage the parking lot easily (know how many spaces are left), while ensuring that the tenant will always have a space available. Also, the asset manager of a successful APM firm sets establishes the value of the building in comparison to market performance plus the extra value he or she plans to achieve and report to investor owners. This helps establish realistic investor owner expectations.

6. Communicate and implement the standards company-wide.

A successful APM firm communicates the standards for quality company-wide by training all of its server and management teams, and arranging quality assurance seminars or sharing ideas about how to solve problems[102]. In addition, the company must allocate resources to achieve the set standards.

7. Offer tangibility and visibility of services.

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[101] Schimpff and Fair, *op. cit.*, p.15.

[102] Robert C. Spoerri, "*INSIDE AMG: THE QUEST BEGINS*", (THE AMG MIRROR, March 1992) p.1.

A successful APM firm works hard sell itself and be memorable to its clients. It can do this partly by making services more tangible and visible. Examples of such activities are: responding in a timely fashion to the potential tenants or investor owners, especially after the first contact; coordinating the services effectively or sponsoring a promotional campaign to publicize the APM's outstanding services.

8. Invest in building service reliability.

A successful APM firm invests in building service reliability by designing high-quality processes; teaching employees how to achieve quality; and offering recognition and rewards for consistent delivery of quality. It builds reliability by selecting and hiring only highly qualified personnel; acquiring systems or building networks to upgrade its capabilities; and promoting either its own services or the building's image of quality[103]. For investor owners, the indicator of reliability of an APM may be the consistent good performance of its managed properties.

9. Build loyalty among customers, employees, and suppliers.

Customer loyalty is very important to asset and property management to get repeat and referral businesses and achieve profitability and sustainability. Beyond that, a successful APM firm must also treat employees as if they were customers, making them consistently satisfied and consistently motivating them to provide quality services. This raises their loyalty to the organization, customers, and jobs, motivating them to provide even more quality.

Furthermore, a successful APM always build its suppliers' loyalty. Spoerri (1992)[104] states that the successful implementation of La Salle Partners asset management strategy required the full participation and involvement of every supplier that provided service to their properties and describes a supplier relation program, called the *Vendor Partnership*. In this program, La Salle evaluated the performance of its vendors and rewarded them for providing quality by encouraging the use of that vendor region wide.

10. Create and manage customer relationships.

A successful APM firm always emphasizes customer relationships and has a high level of relationship management. Lezman and Ihlenfeld (1991)[105] state that the

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[103] John McMahan, *Property Development Second Edition*, (McGraw-Hill Publishing Company, 1989) p.435.

[104] Spoerri, *op. cit.*, p.2.

[105] Lezman and Thlenfeld, "Real Estate Asset Management", p. 62.

relationship between APM firms and tenants is helpful in their tenant retention program to encourage repeat business. A successful APM develops tenant relationships by setting monthly tenant-management meetings and parties, giving move-in gifts, rewarding tenant referrals, providing a suggestion box, and following through with commitments.

11. Assign skillful employees to service recovery, and empower and trust his or her judgment.

A successful APM firm does not hesitate to compensate customers for mistakes in service and recognizes the importance of the recovery process to impress customers.[106] It provides unconditional guarantees, elicits customer complaints, and provides service recovery because this affects repeat and referral business.

Capabilities of a successful APM

1. Possess thorough knowledge of service characteristics.

- *Possess interdisciplinary knowledge.*

A successful APM must provide several kind of services: strategic planning, marketing, leasing, financial management, and physical management. The implementation of each of these services affects the other services. For example, marketing determines asset positioning, which possibly requires some physical improvement of the asset. Leasing strategy, cashflow, and time to dispose of assets in financial management all affect each other, so an asset manager must have an extensive knowledge base. Olson (1993) states that a successful asset manager must have in-depth financial and real estate market knowledge in order to anticipate market trends and better determine the optimal disposal time of the assets. He must also have the skills of a traditional sales representative. A property manager is required to have technical and communication skills to perform on-site and maintain the quality of a building's environment.

- *Understand the customer's perceptions of value, quality and the ways to leverage value over cost to provide and achieve greater profit.*

A successful APM firm offers tenants additional services or amenities that target tenants' desires, such as locating day-care or fitness centers or convenience stores in

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[106] Gail McDonough, 1996.

the building. If the tenant has a good impression of the building, repeat business and referrals can result. Special services can provide competitive advantages and an image of quality for the asset which benefits both the APM firm and the tenants.

- *Recognize the mutual relationship between the profitability of the service to the provider and the customer.*

A successful APM firm is willing to incur increased expenses to maintain customers through positive incentives. In addition, it recognizes that clients will always avoid having to learn new service routines or the inconvenience of moving to a new location. A successful firm charges existing tenants renewal fees lower than the fees it charges newcomers, placing renewal fees lower than market fees a tenant would pay if he or she moved. It may provide special services or gifts to long-time tenants.

2) <u>Understand aspects of organizational capabilities.</u>

- *Encourages timely decisions by a having a less hierarchical organization.*

In order to satisfy customers, timely decisions are important, as suggested by Pacetti and Rabianski (1993)[107]. These two note that the size of a firm is one of the investor's criteria in choosing an APM firm. While a large firm can offer depth and breadth of personnel and experience, and sophisticated reporting and accounting capabilities, its most experienced and senior personnel are usually remote from a particular property. Such managers are not likely to be familiar with a particular customer's needs, or able to respond quickly˙ However, even a large organization can adopt less hierarchical processes in an effort to promote timely response to customers.

- *Replace supervision with positive incentives.*

Like a QSO, a successful APM firm recognizes that its front-line employees represent the firm in the customer's mind. Because the service "product" cannot be inspected before delivery to customers, it is often beneficial to replace direct supervision with positive incentives to ensure quality. This also implies that a successful APM firm must acquire qualified employees with good morale first. The role of upper management in asset and property management is to teach positive attitudes and behavior in employees, not to control them.

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[107] Eileen Pacetti and Joseph S. Rabianski, "*Selecting a Property Management Firm*", (Real Estate Review/ Summer 1993), p.70-71.

- Develop and retain staff members by giving them opportunities to learn and grow.

As with other service organizations, in an APM, improvement opportunities can lower the employee turnover rate while building the skills to provide better service.

3) Maximize Upper management capabilities.

- Use managers as idea-generators, trainers and relievers, and developers of new business, rather than as supervisors

Empowering the front-line employees in an APM firm changes the role of its managers from that of controller to that of idea-generator and trainer and reliever when help is needed. For instance, in a given firm an asset manager can focus better on his strategic planning if the property manager is trusted to executes the plan and deal with the details of day-to-day operations. The asset manager can use his or her skills and time to developing a strategy, action plan, or guideline for the whole performance of each property and overall portfolio or assets. He or she can ensure that both the portfolio and each asset can respond quickly to the market opportunities.

4) Understand aspects of quality and the costs of failure.

- Understand the true costs of poor quality and failure and the value of quality maintenance and improvement.

A successful APM firm recognizes the importance of quality maintenance and improvement. It realizes that poor quality may lead to both the loss of its existing customers and to higher costs for finding new business, attracting new tenants, and providing an image of quality. Therefore, a successful APM firm invests in and puts lots of effort into maintaining and improving quality services.

- Elicit and analyze customer complaints.

A successful APM firm elicits and analyzes customer complaints by conducting periodical surveys, having monthly tenant-management meetings or providing a suggestion box. It uses the tenants' suggestions to adjust the quality dimension to do better.

- *Understand the value of recovery.*

A successful APM firm understands the value of recovery and assigns skillful persons to the recovery process, empowering and trusting them. As soon as it discovers any failure in services, a successful APM firm promptly fixes the mistake, gives compensation to the tenants, and commits itself to avoiding such mistakes in the future. As with other QSO's, the manager of a successful APM firm is the person who knows best what is valuable in the customer's mind and represents the firm in making recovery decisions. A successful APM firm realizes this and always carefully selects and trains its managers

5) Develop competitive information technologies.

- *Have a comprehensive customer database.*

A successful APM firm designs service support systems to enhance the capabilities of its front-line employees. Examples of support systems are a comprehensive customer database that contains information accumulated from serving its customers or from all of the assets in a portfolio. The accumulated information helps the APM firm to provide service that suits each customer, both the investor owners and the tenants.

- *Have hard-to-duplicate networks or technology as strategic advantages.*

A successful APM firm may also have hard-to-duplicate networks, such as shared information of specific markets to provide special services and strategic advantages for its customer. One Boston company links its central computer information system to on-site management; this enables its asset manager to manage a remote asset for their clients' portfolio effectively.

- *Know how to ensure and increase reliability, and reduce perceived risks.*

Consistent quality performance of an asset can assure investor owners as well as increase the reliability of the APM firm. Promotional campaigns and referrals from existing tenants can also reduce perceived risks for potential users.

Measurements used by a successful APM

1. Based on customers' expectations and satisfaction and on quality rather than on quantity of work.

A successful APM firm uses both qualitative and quantitative measurements. Its quantitative measurements are like other service firm's, a typical practice such as using accounting systems to track revenue and expense data. Its qualitative measurements are based on the objective of meeting each customer expectation· It establishes a quality benchmark for its servers to meet. Based on surveys of tenants, Segal (1993)[108], Schneider (1990)[109] and Olson (1993)[110] agree that determinants of quality are as follows:

- *Reliability,* or consistency of performance and dependability.
- *Responsiveness*, or willingness, of employees to serve and help. A successful APM firm must listen to tenants' and owners' requests and respond promptly.
- *Competence* or *Assurance.* A successful APM firm conveys trust and confidence by hiring, training and assigning knowledgeable employees with good communication skills to work closely with customers.
- *Access* or *approachability, or* ease of contact of service personnel. A successful APM firm provides access by arranging hours of operation that are convenient for customers or ensuring that the waiting time to receive services is reasonable.
- *Courtesy* and e*mpathy.* The personnel of a successful APM firm are polite and offer respect, consideration, and friendliness.
- *Communication with the customers.* A successful APM firm keeps its customers informed, listens to them, and makes an effort to provide better services.
- *Credibility.* A successful APM firm achieves credibility by developing a record of good performance in the local market. Pacetti and Rabianski (1993)[111] state that credibility may be reflected in the market's recognition of superior skills and success in a specific geographical area, even though having such a reputation does not guarantee the abilities of the APM.

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108 Segal, *op. cit.*, p. 40.

109 Schneider, *op. cit.*, p.129.

110 Olson, *op. cit.*, p. 36.

111 Pacetti and Rabianski, *op. cit.*, p. 71.

- *Security*, or freedom from danger, risk, or doubt. A successful APM firm is able to provide and build a feeling of security in the customer's mind.
- *Tangibles*, or efforts to provide physical evidence of service. A successful APM firm is able to provide and maintain the quality of common physical facilities and supports or equipment. It assures its clients that there will always be staff available to help.
- *Comprehensive service,* or continuous effort to build up the franchises and recognition in management. A successful APM firm must constantly monitor changes in the perception of its quality over time. It also puts effort into achieving dynamic service standards.

To evaluate performance by these measurements, asset and property management firms can use tools such as tenant satisfaction surveys, suggestion boxes, or evaluation meetings. Other kinds of information, such as the renewal rate, the rate of emigration, and the referral rate can amplify the information gleaned from such tools.

2. <u>Based on participatory self-evaluation by the front line employees</u>.

Spoerri (1992)[112] says that a successful APM firm must establish measurements from participated self-evaluation. He adds that La Salle Partners Asset Management shared the aspects of quality by setting up a Regional Quality Meeting and issuing a "Quality At Work" column in its periodical publication.

3. <u>Emphasizes long-term performance over short-term transactions</u>.

A successful APM measurement program is based on long-term performance rather than short-term transactions. Hayman (1993)[113] suggests that company profitability is ensured if its employees do not depend so much on commissions and instead concentrate equally on management and leasing. The person who serves the customers should be concerned with the conditions of the lease contract because the conditions will affect long-term management, such as the length of the leasing, etc., as

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112 Spoerri, *op. cit.*, p. 2.

113 Alan Hayman, "*Managing and Leasing Institutional Real Estate Portfolios*", (The Real Estate Finance Journal/ summer 1993), p. 82-83.

well as the price of the contract. Shilton (1992)[114] also agrees with the concept of basing measurements on long-term performance:

> If real estate is viewed as a long-term investment, compensation strategies must shift from short-term reliance on transaction volumes and accounting measures of wealth to long-term operational indicators that reflect the health of the company and sustained improvement of cash flow.........Quality is Consistency...
>
> -- *Linking Quality to Incentive Compensation*, 1992.

By linking measurement that determines compensation to the life of the lease, a company will ensure that the agent will have an interest in seeing that the terms of the lease are enforced. This allows the company to minimize differences in income between periods and pay out rewards based on the upward sloping stability of the income, or, in other words, increase the long-term stake of the deal maker over the life of the operation.

4. Proportioned well to measure and promote both individual and team performance.

According to Ferguson (1992), a successful APM firm recognizes that institutions demand a team approach and compensating people solely for individual performance does not encourage a team orientation. To measure both individual and team performance well, an APM firm must proportion the measurement that determines the compensation system to reflect both individual efforts and teamwork.

Spoerri (1992) of La Salle Partners suggests identifying a "Property Team of the Year". This can help reinforce the APM firm's commitments to its clients as well as take into account corporate profitability, which is the necessary objective of the measurement and compensation system of asset and property management.

Summary

In this chapter, key elements from the wheel of profitability and sustainability (Diagram 2.1) were applied to a specific type of service firm, asset and property

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114 Leon Shilton, "*Linking Quality to Incentive Compensation*, (Real Estate Finance Journal/ Winter 1992), p. 58.

management. It was shown that asset and property management is comparable to other service businesses since it focuses on its employees, quality, delivery process, and relationship management. The strategic elements that contribute to success in a service firm--roles, capabilities, and measurement--were identified as they appear in the business context of asset and property management. The next chapter describes the nature of the real estate development business; how it differs from asset and property management; and how the elements of success for a real estate development firm differ from those required for successful asset and property management.

Chapter 4: Industry Cases and Analyses

Introduction

Chapters one through Three have argued that a firm repositioning from a focus on real estate development to asset and property management requires considerable internal organizational change. I presented graphically the characteristics of service businesses, and demonstrated that roles, capabilities and measurements are the key strategic elements in a service business. I compared the characteristics of asset and property management to those of a typical service business to show first, that asset and property management fit this model, and second, that the three strategic elements equally apply. Then, I presented the characteristics of real estate development in diagrammatic form, showed the differences between development and management, and contrasted the functions of roles, capabilities, and measurements in the two types of businesses.

In this chapter, I analyze the experiences of three real estate companies that were originally organized to develop real estate but currently provide service to third parties. Prior to repositioning, each of them had some in house capability for managing assets and property but only insofar as was necessary to support their development activities. The three case studies presented below are based on published materials and interviews with top-level and asset or property managers. I investigate how repositioning required significant changes in the three strategic elements. I compare the experiences of the three companies to each other and to the theoretical model of service and product oriented businesses presented in previous sections.

Case Study One: Company A Real Estate Services Co[115].

Background[116]

Company A (CA) was founded in 1966. The firm focused on real estate development, seeking profits through equity appreciation. After several successful years as developers, CA decided to assume control of their projects in their entirety. To this end, they developed in-house property management, construction and brokerage functions. Though initially designed to extend control over development

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[115] This industry example is intended to illustrate a narrow set of issues, rather than a comprehensive new of company A and, therefore, both the company name and the facts have been changed to provide anonymity to the host.

[116] Paul Adornato et al., "Company A", (MIT Center for Real Estate's Case Study, 1992), p. 1-2.

projects, each of these functions became profit centers themselves and were able to offset the inevitable cycles of the development business.

In its early years, CA focused on speculative and build-to-suit suburban office space outside a major metropolitan area. Then, in the mid-1970s it diversified into some second-tier mid-eastern and southeastern cities.

In the late 70s, the founders sold the company to two management members: one of whom acquired the largest interest and was named President.

Transition[117]

In 1989 , several market forces led CA to the nature of its business. These included most importantly an imbalance between demand and supply, and a decrease in capital availability that eliminated any prospect of speculative development. In response, CA split into two companies: an investment company and a service company. The investment company regrouped to manage the partners' existing properties and look for the new opportunities. As these opportunities dried up, the company soon became a shell for the owners' assets and senior executives became responsible for top client contact in the service company.

Before the separation, the service company was mainly responsible for supporting owner equities; it took on outside client as a secondary function. After separation, its main business became the provision of a full line of real estate services to a wide range of outside clients. The firm organized into five divisions. Each was a profit center and billed each other for work. The business strategy of CA as a whole was to focus on the customer and to be a well-coordinated, "seamless" organization.

Most top managers at CA concurred that the process of change necessitated a somewhat painful introspection. Implementing a new strategy required emphasizing some functions, de-emphasizing others, and convincing all employees to "buy into" the new strategy.

Some employees, including the senior marketing executive and several project managers, resigned because they felt they no longer fit into the company or because they questioned the ability of CA to achieve a successful transformation. Since new development activity is much less intensive than management activity, most of the

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117 Adornato, *op. cit.*, p.

development people left at the company now perform other related functions such as redevelopment or corporate consulting[118].

Repositioning of roles and capabilities

Design of new processes and standards

CA improved its internal communication system to promote the image of a seamless company. Internal report sheets[119], which provided a summary of every CA client contract, were circulated among all divisions. These reports helped document referrals and enhanced cooperation between divisions. A 1992 case study said,

> "The tracking of referrals began under the seamless organization initiative completed the picture. This, along with the internal billing system, provided a mechanism for fee sharing between divisions. Thus, employee were financially motivated to work toward the firm's newly enunciated mission".

In order to best serve customers, the organization took on a less vertical structure, reducing layers of management from seven to three [120]. A Senior executive determined that capturing, analyzing, and disseminating information to clients, and sharing information across departments would be crucial to success[121]. He also stated that his company's competitive advantage is up-to-the-minute, on-line information on properties, tailored reporting services to clients, and faster services facilitated by instant information on the progress of the projects[122].

New form of coordination

The strategy to generate fee income required cultivation of long-term client relationships. Filling customer needs became the responsibility of everyone. Because it was often necessary to provide service across divisions[123], CA established incentives for well coordinated teamwork. Compensation and incentives were based on an

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[118] Interviewing with Senior Vice President and Principal, Company A Real Estate Services Co., 1996.

[119] Adornato, *op. cit.*, p. 3, 5, 7, 8.

[120] Suon Cheong et al, *"Company A Real Estate Services- Information System"*, (MIT Center for Real Estate Case Study 1995), p. 3.

[121] Cheong et al., *op. cit.*, p. 2.

[122] Cheong et al., *op. cit.*, p. 1.

[123] Adornato, *op. cit.*, p. 6.

individual's contribution during a given period to a constantly changing amalgam of teams and the overall profitability of the whole firm[124]. The use of the Profit Center concept, in which each department would bill others for work provided, helps to clearly determine the contribution of each function to the company.

Customer Satisfaction[125]

According to the Senior Vice President for Property management, CA created the position of "Account manager" as the point of contact, strategic planner, and coordinator for each client. An account manager may come from any department, such as brokerage or property management, but he or she must possess good marketing skills, and be able to maintain good relationship with a client. The account manager coordinates all processes and delivery of service behind the scenes. This function is unlike that of an asset manager , who looks at an asset purely from a financial perspective. Today's ten or twelve account managers are multi-disciplined employees coming able to project a image of a single company.

Property management's new requirements[126]

Property management has grown significantly from a client base of four to more than 36 clients (from four million sq. ft. to 16 million sq. ft). In 1995 CA, the property management group alone hired more then 27 people in various positions. The scope of services also has changed dramatically. Day-to-day operations has become a commodity for property management. To differentiate, financial reporting, strategic planning, and exit strategy development are important in serving customers' needs.

The company's Senior Vice President for Property Management observed that today's property manager needs a very good financial background, as well as interpersonal and coordinating skills as the quarterback of the team. A property manager puts together all of the people needed to serve customers from accounting, construction, brokerage or other departments. He has the authority to manage a particular investment and establish relationships with the owners. For a major investor client, he may perform another role: account manager.

Information capabilities[127]

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124 Adornato, *op. cit.*, p. 6.

125 Interviewing with Senior Vice President and Principal, Company A Real Estate Services Co., 1996.

126 Interviewing with Senior Vice President and Principal, Company A Real Estate Services Co., 1996.

With the implementation of the new system, the property and asset management of CA has been able to improve its service level, reporting, information processing and analysis. Each department has its criteria for providing growth and better service for clients. The information data bank utilized by the broker division uses historical data compiled by CA over the last 20 years; it includes current market trends and is available for any group to utilize. CA is working toward the objective of marketing all relevant information needed to serve a customer available to every department. For example, a property manager should be able to derive the construction information and unit price for a property in order to prepare budgets for a rough estimate for tenant improvements and renovation. That would facilitate property management's responsiveness without having to go through the construction group , saving time and distraction. Then, they could coordinate the follow-up with exact figure provided later.

Analysis of repositioning roles and capabilities

Asset and property management businesses emphasize customer needs and expectations far more than real estate development firms. A successful developer only identifies the general needs and expectations of the typical consumer or the market demand. The purchaser of the property then holds and manages it, creating a strategy based on his or her own experience or needs and expectation. The Senior Vice President of Property Management underscores this difference, stating that it was very difficult for CA to make the transition to working for third party instead of for themselves:

> "It used to be 'We are the experts and we will just go do it'. Then we found ourselves having to listen to clients--we were a little arrogant then. We thought we knew the best way to do something because it was the way we had been doing it for 15-20 years. Now we know the service is whatever the customer wants it to be".

As investor clients' needs and expectations for property management became more demanding, day-to-day operations became commodity for property management. The need for financial reporting, strategic planning, and exit strategies became

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[127] Cheong et al., *op. cit.*, p. 5-6.

important in serving investor clients' needs. CA uses both training and hiring to make sure that its current property managers have strong financial backgrounds, and the personal skills needed to satisfy its clients.

Several well designed processes and supporting systems have contributed to the image of a seamless organization. These include the development of the account manager's role, the internal report sheets, an internal billing system, the dissemination of information to clients, and the sharing of information across divisions . Together, these innovations produce effective coordination. The standards necessary to achieve the "seamless organization" are clear to all personnel.

The firm's investment in building an information data bank, an IS system to improve reporting, information processing, and analytical capabilities have been combined with the hiring and training of personnel able to provide reliable, tangible, and responsive service. CA has emphasized good marketing and relationship management skills required in appointing and compensating account managers. The firm's concern for its employees is reflected in the development of a user-friendly IS system. Employee loyalty is also promoted through other supporting systems, empowerment strategies, and information sharing. These strategies encourage a commitment to high quality service.

CA has encouraged timely decision making by restructuring management into a less hierarchical organization (from seven to three vertical layers) and by giving the property manager (or account manager in the case of major client with several and more complex properties) to full authority to manage his or her client' particular investment and relationship. This empowerment has the added advantage of freeing upper management to develop new business.

CA's network of International Property Consultants, intensive database, its integrated knowledge and the experience of its people combine to give the company a strategic advantage in the market. This is consistent with the observation, outlined in previous chapters that a successful service business should focus on developing its database, information systems, network capacities, and personnel.

Performance Measurements[128, 129]

CA property management, like other property management firms, serves two different clients: tenants and investor clients. The best performance measurement of the satisfaction of investor clients is how much more business[130] (repeat and new) they give the company. CA pays special attention to how buildings comparable to those of their clients are performing. In addition, CA communicates consistently with the owner of a building about how its performance could be improved.

In pursuit of a high level of tenant satisfaction, CA does frequent tenant surveys. It uses its brokerage function as its eyes and ears to keep tabs on what similar buildings in the market are offering. In addition, the CA management team does its own tour of the competition to see how they look in comparison to their own managed buildings. A senior manager also periodically visits tenant space to observe the interaction between tenants and his property manager. The Senior Vice President of Property Management noted: "I will check everything on these places: Do tenants say hello to the property manager? By name? If the property manager knows their names, I know he or she spends time in the building .

In finding its way toward a new organizational structure, CA has been assisted by a management consultant working who observed "You must allow the organization to discover their problems in a manner that allows them to solve them, not just know them"[131].

Analysis of Performance Measurements

In saying that the repeat business its investor clients gave to the company is the best performance measurement of their satisfaction, CA demonstrated its awareness of the cost of poor performance and the value of quality maintenance and improvement. Also it implies the importance long-term over short-term performance

Consistent communication among account, asset and property managers and property owners and periodical tenant surveys are the best ways to elicit any customer

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128 Interview with Senior Vice President and Principal, Company A Real Estate Services Co., 1996.

129 CA Real Estate Service Co.'s Brochure, 1996.

130 Interview with Senior Vice President and Principal, Company A Real Estate Services Co., 1996.

131 Adornato, *op. cit.*, p. 9.

complaints. The periodic visits of senior management encourage consistent interaction between CA managers and tenants.

The on-going survey of similar building offerings in the market makes it possible for CA managers to anticipate clients' expectation and meet the highest market standard. The process of self-evaluation that has been established since the repositioning ensures that CA employees will continue to improve their performance because the standards are set by those who know the company's clients needs first hand.

Case Study Two: B. Real Estate Services Co[132].

Background[133]

The company (BR) was begun as a construction firm more than three decades ago. It had turned its focus to real estate development prior to the significant changes in 1989. BR's president and COO said that[134],

> "In the late 1980s, BR was a development firm with three legs. There was a development leg, management leg, and construction leg. Each of those operated semi-independently, in conjunction with each other but had separate management structures."

Prior to 1991 BR Management only managed properties in which BR was a joint venture partner[135]. Its partners included insurance companies, realty advisors (pension funds), Japanese construction companies, and S&L institutions. BR's development activities were limited to a geographic region in which the recession arrived late.

Transition

BR survived the real estate recession because it was a venture partner not a borrower[136]. The management service division was born into a separate company, B

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[132] This industry example is intended to illustrate a narrow set of issues, rather than a comprehensive new of company B and, therefore, both the company name and the facts have been changed to provide anonymity to the host.

[133] Richard Sherer, "*BR Inculcates Corporate Philosophy of Positive Action, Evolves Into a Successful Services Firm*", (National Real Estate Investor (reprinted), January 1995), p. 1

[134] Sherer, *op. cit.*, p. 1.

[135] Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Service Co., 1996.

[136] B Management Services Co.'s brochure, 1993.

Management Service Inc.(BMS) continued its growth by offering real estate management services ; it went public in 1991[137]. The parent holding company, BR Co., spun off its development business into a separate entity that is not a corporate affiliate of the services company.

BMS acquired management companies and, thereby, third party management business. That benefited BMS by providing relationships with institutions which had not experienced BMS as a "partner" and positioning the company nationally. BMS was very successful building on these new client relationships[138].

The property division of BMS now performs facility as property management for an 171 million sq.ft. commercial portfolio, and provides leasing, marketing, contract supervision, risk management, construction management and building operation services for a broad range of clients.[139]

The Challenges of Repositioning [140, 141]

BMS faced a number of challenges in repositioning

- BMS previously dealt with "clients" as partners, not customers. It was not originally sensitive to this difference.
- BMS accounting was organized on a "least-cost basis", focusing on financial bookkeeping rather than management reporting to clients, the reports they received appeared inaccurate and the timeframes were not responsive.
- BMS did not provide brokerage services. Although the development group understood the market, management staff had limited contact with the brokerage community. Following the industry downturn, property management gained a thorough knowledge of the market and leasing. Day-to-day operation management became less important.
- BR's original product had been relatively simple business parks. It had to build credibility in the operation or maintenance of complex properties.

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137 Sherer, *op. cit.*, p. 2

138 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Service Co., 1996.

139 B Management Services Co.'s brochure, 1996.

140 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Service Co., 1996.

141 Interview of Vice President of Property division, B Management Services Co., 1996.

- Senior BMS staff had been selected to supervise property managers and needed to orient towards business development or marketing.

In 1991, BMS commissioned a client survey which revealed the need to generate changes in its service business.

Repositioning of Roles and Capabilities

Design of new processes and standards [142]

BMS wanted to provide all clients with the same level of service in every location. To this end, it developed an in-house reporting package that is standardized across the country.

After 1991, accounting was performed at decentralized centers so that accountants would be in the same time zone as clients and property managers. Separate teams handle specific accounting systems. The firm also shifted from the focusing on cost and efficiency to focusing on client satisfaction and creating stronger relationships.

Communication[143]

BMS also has made an effort to provide a sophisticated monthly "Property Performance Report (PPR)", a sophisticated and pleasing format report. The PPR forces the property manager to include complete information on a consistent basis.

Decentralization[144, 145]

All functions have been decentralized to the regional level. The only national department is training (B College). All marketing (brokerage) is done at the regional level. Corporate headquarters sets the direction, policies and procedures but the day-to-day decision making and customization of services is made by each local team for each client. Corporate officers may occasionally call on national clients.

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142 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Service Co., 1996.

143 Sherer, *op. cit.*, p. 2

144 Interview of Vice President of Property division, B Management Services Co., 1996.

145 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

Marketing[146]

Post-1991, marketing was centralized and the level of presentation sophistication improved. It has now devolved to regional managers who customize the corporate tools for specific assignments.

The new BMS requires managers that are marketing-oriented and/or have experience in brokerage or asset management[147]. It was difficult for the original senior managers to make the transition since these people were oriented to managing "down" (directing staff) rather than "up"(servicing clients)[148].

Many BMS-acquired companies have brokerage arms that are more active in marketing. In addition, BMS recently acquired the company that produces a nationally recognized real estate research project[149].

Skills requirement[150, 151, 152]

Clients are currently demanding more than day-to-day operation. The ideal management candidate not only has technical training, represented by designations such as Certified Property Manager (CPM) or Real Estate Property Administrator (RPA) but also has at least a bachelors', and quite possibly an advanced degree. For managers of complex properties, an architectural or engineering undergraduate with an MBA is preferred.

In addition, interpersonal , presentation, and persuasion skills are important. Personal skills are important because the line of communication between the manager and tenants must be open and professional to retain tenants. Likewise, when dealing with owners, the ability to engender confidence and solve problems is a necessity. When dealing with institutional asset managers, today's property managers require excellent presentation and persuasion skills . In other words, BMS realizes the need or

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[146] B Management Services Co.'s brochure, 1996.

[147] Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

[148] Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

[149] B Management Services Co.'s brochure, 1996.

[150] Sherer, *op. cit.*, p. 2-3.

[151] Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

[152] Interview of Vice President of Property division, B Management Services Co., 1996.

managers to do more than just manage a building; they must be able to manage leasing, marketing, construction, and accounting as well.

Relationship management

BMS has discovered that the core of the management business lies in developing relationships. It has taken a shortcut to expanding its relationships by acquiring other management or leasing companies that already had relationships in place, rather than trying to develop its own[153]. BMS has always had held activities aimed at enhancing its relationship with tenants such as periodical party events[154]. The company has learned that this adds value to the property and in turn reinforces its investor clients' relationship. However, communicating and presentation skills are still key to persuading investors that these relationships are important.

Training

In 1991, BMS initiated "B College" which now offers some 30-40 courses a year in a variety of subjects related to property management[155]. BMS invests about a million dollar a year in training. B College also prepares educational materials for new "roll out" programs that can be sent throughout the system on video or computer-based tutorials[156]. B College has grown dramatically from its beginnings. It has expanded to provide training to outside client companies as well[157].

As it repositioning from a development to a management firm, BMS had to train development people to be managers. They have learned how to lease, do accounting reports, and manage properties. Those who were not able to change had to leave the company[158].

Information system and network utilization[159, 160]

BMS has a conference call system that connects marketing people nationwide. They are able to share information regarding clients and potential assignment.

153 Sherer, *op. cit.*, p. 2-3.

154 Interview of Vice President of Property division, B Management Services Co., 1996

155 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

156 B Management Services Co.'s brochure, 1996.

157 Interview of Vice President of Property division, B Management Services Co., 1996

158 Interview of Vice President of Property division, B Management Services Co., 1996

159 Interview of Vice President of Property division, B Management Services Co., 1996

160 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

Moreover, BMS has invested in an information network that allows all its managers across the country and out in the field to connect with each other. Its managers can obtain up-to-the-minute information or reports on how other properties are doing instantly. Should a problem arise, they can share information and experience and advise each other. Investor clients or tenants are assured of getting the most effective solution because managers can tap into a wide range of information and decision options.

BMS senior managers go out and check on its managers to make sure of that they are providing the highest quality services . The firm manages its contractors and suppliers the same way as its employees. For example, suppliers and contractors are encouraged to propose better way of doing things. It also performs annual audits of physical management.

Customer satisfaction[161, 162]

BMS emphasizes that marketing, communication skills, and ability to provide service beyond client expectations are very important to achieving customer satisfaction. It provides the best possible information on marketing and leasing to each client so that he or she can make the decision. It provides its clients with a team approach and includes a portfolio managers who have much more experience in the field than do the firm's competitors. He or she is responsible for providing decision support, coordinating client needs, creating and maintaining relationship or even customizing services to make a client's life easier. An example of such an effort is writing report in the specific format of each client so that they can include it in their own reports without having to reformat the information. By acting as each client's partner or team, BMS adds value to service while increasing customer satisfaction.

Analysis of repositioning roles and capabilities

BMS clearly is a good example of a company in which the attitudes of employees needed to be changed from a product to a service mind set. BMS did not respond to its clients' complaints during their initial repositioning possibly because it did

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161 Interview of Senior Vice President of Acquisition Group (former Regional Manager), B Management Services Co., 1996

162 Interview of Vice President of Property division, B Management Services Co., 1996

not recognize that clients, not the company, knew best what management should do. The firm soon recognized the need for a new attitude, and worked hard to achieve it.

BMS created standards, and then communicated and implemented them company wide. These standards included, for example, its in-house reporting packages that are the same for all clients and set the same direction, policies and procedures for all its offices. In addition, the BMS now allows local level management to customize day-to-day operations within the firm's quality standards. It is thus able to respond to customer needs while eliminating levels of management.

BMS's system support such as accounting had pursued the traditional goal of least cost . As the company repositioned it became clear that this strategy was not providing a high level of customer satisfaction. It soon recognized that customer satisfaction can lever the value of service over the customers' cost and set up the decentralized centers to make its reports more responsive to each client's needs. It created a much more sophisticated monthly property performance report for clients which, in turn, required managers to keep up with consistent property and client information. BMS changed the system from one focusing on cost and efficiency to one focusing on client satisfaction.

Despite having some capacities for property management in-house, BMS needed to obtain more expertise as customers' needs became more than day-to-day property management. Repositioning was quite challenging for this company because it had to acquire both a service mind set, marketing ability, complex properties' management, financial knowledge and several other skills. The original senior managers directly faced these challenges, shifting from managing "down" to "up" and responding to clients needs. The firm was able to realize and deal with those challenges by recruiting appropriately qualified personnel. It found people with excellent interpersonal , presentation, and persuasion skills and relevant higher educational degree. It invested in setting up "B College" to deliver all the training needed for its existing or new employees in subjects related to property management.

The company has also been able to utilize its capital in interesting way. It acquired other small firms that already had the needed capabilities and skills such as brokerage, marketing, or that already had relationships with institutions. In this way it was able to expand its presence as a national company with a wide span of networks and capabilities in place. By empowering regional managers to market and customize the corporate tools and creating the information sharing system across properties and assignment, BMS gained a powerful competitive advantage. BMS realizes the importance of quality commitment from its contractors and suppliers as well as from its employees. The system that allows its contractors and suppliers to participate in improving services through utilization of its information network also demonstrates its commitment to quality.

The significant investment in setting up "B College" reflects the firm's belief in the importance of training employee. Expanding the scope of B College to include training its outside client companies is a way of educating its customer and managing customer expectation by influencing their standards. The effort to transform its development people into managers demonstrates its commitment to employees and quality standards.

BMS emphasizes marketing, communication skills, and ability to provide service which exceeds customer expectations because it knows that these factors can make service tangible and visible to its customer. Its team approach includes experienced portfolio managers able to function as a client's team in helping him or her achieve financial or management goals.

Analysis of Performance Measurements

Customer Satisfaction

BMS has tended to rely on information gained through individual events rather than on a pattern of information gathered through independent tenant surveys. Customer satisfaction, therefore, is generally gauged by personal interaction.

BMS claims that tenant surveys do not show an accurate pattern of performance. This may be the result of the way in which the survey has been constructed. Instead, BMS uses personal interaction between its managers and client as its gauge of performance. They believe that each client's needs are often quite subjective, and that sometimes clients need face-to-face interaction to underscore the firm's intention to maintain and improve quality.

BMS discovered that by focusing on tenants' relationship and expectations, it also added the value to the property and reinforced its relationships with investor clients. This is the pattern that other national companies did as well.

Case Study Three: Company C Co[163].

Background

Founded in the late 1970s as an investment building company, Company C (CC) was in the development business until the mid 80s. Up to that time, CC constructed over four million square feet of commercial space. Most of its developments were built to hold, only a few built in the mid 80s were to sell. Eventually, oversupply, lack of demand, and the loss of its equity position in the industry signaled CC to change its business lines. It responded by moving its personnel and organization toward meeting existing and emerging needs in the market place. It entered the real estate management service business by focusing on property management and supporting services such as leasing and construction management, areas in which it had existing integral capabilities .

Transition

In the spring of 1986, CC realized that it was facing a long-term problem, and that it needed a comprehensive approach. The company did two things: first, it restructured its debt to retain management of the properties, second, it developed a strategy for the future. CC negotiated management contracts on troubled properties held by its lenders, not only the ones that the company itself owned. Its strategy was to retain its people, not its buildings, as it moved toward meeting the emerging needs of the market. By 1987, it brought in adequate income through fees for third party management, managing four million square feet for third parties.

[163] This industry example is intended to illustrate a narrow set of issues, rather than a comprehensive new of company C and, therefore, both the company name and the facts have been changed to provide anonymity to the host.

The current management style, direction, compensation, understanding of service , attitude towards clients, and ways of measuring performance have evolved since 1988.

Utilizing existing skills

CC was able to maximize it existing skills to use in offering new services: property management, project management, leasing, local knowledge for specific markets and products, and an ownership perspective. Based on its own experience CC was able to understand its customers' needs. According to a recent' s Company C repositioning case, "The ability to share the owner's sense of urgency was a real edge".

The Challenges of repositioning

The following issues were most challenging in repositioning CC:

- Accepting a lower financial upside in exchange for more stable business.
- Having far less decision-making autonomy with the real estate asset, specifically (within the framework of an institutional environment.
- Aligning salary and compensation structure to reflect customer satisfaction.
- Changing its relationship with employee as well as with clients.

Williams and Dwyer[164], the authors of the case " Company C: Strategic Thinking in Volatile Market", commented:

> "The biggest barrier to any development firm repositioning itself successfully as a service firm is the wide chasm between the typically loose entrepreneurial management style of the developer and the structured bureaucratic behavior of the institutional environment. The Service Decision-Making requires a truly service mind to facilitate the process rather than fight it".

Company C studied several different types of service companies seeking ways to shift its employees throughout the company towards a service mind set. According to the company's President and CEO commented:

[164] Donald L. William and Sally M. Dwyer are the principal of a real estate advisory firm specializing in market analysis and planning, investment research and corporate counseling.

"Seeing the results of excellent service made us understand the need for it and gave us the desire to be even better"[165].

Repositioning Roles and Capabilities

Service delivery process design

An overall direction was formulated as a guideline for operating centers to develop specific individual plans [166]. Company C created a quality control program that included manuals of standards and procedures to use company wide[167]. However it decentralized operations and decision making to regional managers. It reduced hierarchy to only one or two levels of day-to-day decision makers[168].

Important Skills[169]

The company's management today states that communication skills--the ability to elicit complaints, present and persuade and market knowledge are definitely required to serve its clients. Service representatives have the responsibility of being their clients' eyes and ears, responding reliably, and being able to think and present strategically to its clients.

Training and Recruiting[170]

The company has always done a lot of training and taken the hiring process very seriously since its development era. Its small number of properties, combined with one-on-one and on-the-job training by senior people, established the necessary disciplines of marketing, management, and leasing before repositioning. In addition, other background technique courses such as sales were provided by outside instructors.

After repositioning, training was focused much more on developing a service attitude. The company's Executive Vice President in Business Development, stated that the company was able to make everyone accept that a "Legendary service" vision

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[165] Donald William and Sally Dwyer, "*Company C: Strategic Thinking in Volatile Markets*", (ULI Repositioning Case Study, ULI , May 1992), p. 14.

[166] William and Dwyer, *op. cit.*, p. 13.

[167] Interview of Vice President, Business Development, Company C Property Co., 1996.

[168] Interview of Vice President, Business Development, Company C Property Co., 1996.

[169] Interview of Vice President, Business Development, Company C Property Co., 1996..

[170] William and Dwyer, *op. cit.*, p. 5.

on behalf of its clients. With its very low turnover only two percent of more than 600 people, CC was committed to widespread change from development to service.

CC's hiring process has included personality tests combined with numerous interviews by multiple managers since its pre-repositioning. The company's president has always been the last stop during the interview process. The resulting capabilities and work ethic of those hired are believed to have been key to CC's successful in repositioning. CC usually chooses people on the basis of attitude and business educational background (selecting from top universities) regardless their real estate experience because it believes in its training and learning environments[171].

Employee focus

CC's business philosophy begins from its focus on employees. It views real estate as a people and communication business. In addition, when it decided to reposition, it chose to keep people not properties and adjust to market demand. According to the Vice President of Business Development: "Our job is to provide our management people the opportunity to excel. We have got to provide real estate to our staff so that they will be able to hone their skills."

Customer Satisfaction Alignment[172]

Improved client communications is the key to being "Customer friendly". Good communication skills are combined with improving performance, spending more time with each client, and achieving efficient service delivery by cross-training and establishing an "account management" function. Generally CC utilizes its communication system efficiently (through e-mail, fax, voice-mail, and etc.). However, it depends on face-to-face communication when a problem occurred.

CC realizes that clients typically do not make unnecessary changes in their service providers, because it is inefficient to start afresh with another company. CC assigns account managers to all of its clients mainly to build relationships, provide one point of contact, and be responsible for any recovery or any loss of repeat businesses. Account managers ask clients directly about how to improve the firm's performance, and then monitor whether the improvements have been effective.

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[171] Interviewing with Vice President, Business Development, Company C Property Co., 1996.

[172] Interviewing with Vice President, Business Development, Company C Property Co., 1996.

Analysis of repositioning roles and capabilities

Company C is an example of a firm that repositioned from development to service provision on the basis of its people. I agree with CC's claim that its recognition of employee's importance is the key to this success. Its philosophy and strategy of retaining people rather than properties gave it a lot of advantages. The firm was able to utilize existing skills--property and other types of management--to offer services and was able to draw on its own sense of ownership to understand its clients.

CC also benefited from retaining consistent hiring and training policies that served it well during its development era. Its intensive hiring processes focusing on attitude, personality, and business educational background ensures the qualification of each employee. In-house training is then able to impart the necessary real estate knowledge and skills either by one-on-one training, taking seminars or classes, or on-the-job training by senior people. Only in the period of repositioning was the training changed to focus on service industries as the company strove to establish a service orientation throughout its organization. The widespread success of CC's training in turning existing development people into management providers is dramatic.

The employee focus of CC is reflected in the statement that senior level's job or company's responsibility is to give management people the opportunity to excel and hone their skills. CC, as a successful repositioned firm, will continue to provide the opportunity for its people to learn and grow.

The development of a service orientation a change in mindset in which decision are made in support of specific company-wide standards. This is clearly the greatest challenge in making the transition from managing one's own to managing the property of others. CC's decision to study other service industries in the search for role-models has helped the firm understand its own new role better.

Another challenge of repositioning arises from the fact that service businesses carry lower financial risk than production businesses, but provide more consistent return. It is necessary to change the compensation structure to align performance with quality service because incentives rather than control-oriented supervision are effective in a service business.

CC created and communicated company wide standards through manuals of standards and procedures designed that ensure quality control. Its decentralization of operations and decision-making to regional managers has two benefits: first, managers can customize services to meet the subjective needs of clients; second, this empowerment reduces the managerial hierarchy to only one or two levels of day-to-day operations which directly translate into more responsiveness to customer needs.

CC has exhibited its commitment to customer satisfaction by establishing policies for on-going performance improvement, improving communication both internal (within company and suppliers) and external (with clients). CC trains employees , managers, and other servers in interdisciplinary knowledge. It facilitates building customer relationships by encouraging managers to spend more time with clients, and by establishing the account manager position. Technology helps facilitate communication between CC and its clients; face-to-face communication between account managers and clients is most important in eliciting complaints and solving problems when they occur.

CC aligns customer satisfaction with relationship management by making an account managers the single point of contact for each client. He or she coordinates customer needs, and is responsible for any recovery and loss of repeat business. This policy also reflects an understanding of why a customer might switch companies, what the costs of service failure might be to its providers.

An account manager can come from any division but must possess marketing, communication, and coordination skills and experience. Given these requirements, account manager are generally senior, more experienced people. As a result, CC's upper managers function as idea-generators, trainers and business developers rather than control-oriented supervisors.

CC's statement that communication skills, and market knowledge are important to service clients, create reliability, and create and present strategy also confirms the importance of providing visibility, and making its services tangible to clients.

Performance Measurements

Realizing that the needs of clients are always changing and growing, key measurements for CC reflect those of other quality service firms . They " Focus on the Customers, not on Competition"[173]. The company has clear objectives for each

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[173] William and Dwyer, *op. cit.*, p.14.

property and clients. It uses annual client surveys to elicit information from both investor clients and tenants[174]. The questionnaires for tenants and investor clients are created by outside consulting groups. It is the account manager's responsibility to analyze and coordinate the information gleaned from the surveys to improve performance[175].

CC encourages commitment to excel by self -evaluation; every employee is asked what they think the company is doing right, what it can do better, and what clients are saying[176].

CC gives out three different types of annual awards to its staff[177, 178]. One is the "Entrepreneurial Spirit Award" given to the person who has gone furthest above and beyond the call of duty to creatively solve a client's problem. The award is based on letters of recommendation from clients. Another annual award is the "Legendary Service Award", which again is based on nominations from clients. This award goes to the management team that has consistently serviced its clients, for at least six months, in some critical dimensions of quality such as accurate and timely responsiveness, or adding value or a premium return to the property. The third award is tied to the client survey, and may be given to any employee in the form of compensation such as a trip in addition to a regular bonus. All of these three awards are judged by an executive committee. The company's President remarked: "We encouraged having everyone take pride in 'signature' quality work of the level considered 'beyond the call of duty' as the goal "[179].

Analysis of performance measurements

The statement "Focus on the customers, not on competition", and subjective customization of each property and client, clearly shows that CC's measurements are based on customers' expectations and satisfaction. The annual survey feedback

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174 Interviewing with Vice President, Business Development, Company C Property Co., 1996.

175 Interviewing with Vice President, Business Development, Company C Property Co., 1996.

176 William and Dwyer, *op. cit.*, p.13.

177 Interviewing with Mr. Dan Smart, Vice President, Business Development, Company C Property Co. on June 4, 1996.

178 Company C Property Co.'s brochure, 1996.

179 William and Dwyer, *op. cit.*, p. 14.

analysis and coordination of the responsibility for improvement by account managers strengthen this point.

CC clearly bases its measurements on self-evaluation by allowing every employee to say what he or she thinks the company is doing right or wrong, how to do better, or what clients are saying. CC's measurements clearly emphasize both long-term and short-term performance by its " Entrepreneurial Spirit Award" (for short-term performance)and "Legendary Service Award"(for long-term performance). Moreover, CC's measurements are proportioned to measure both individual and team performance. The first award mentioned is for individual server who can make service visible and tangible, the second is for management team which can achieve long-term quality.

Comparative Analysis

Transition

Two of these three firms, CA and CC, already had in house capacities for management and leasing before repositioning. BMS had some management capacity, but no leasing experience. It therefore faced the challenge of acquiring the leasing capabilities in addition to others. The firms shared challenges of creating a service-oriented attitude in their employees, their expanding their capabilities, and establishing new relationships with clients.

The first, challenge --changing employee attitudes--requires a new commitment to high quality services, a concept subjectively dependent on customer satisfaction rather than on the quality of any physical product. Furthermore staffs in these companies, formerly involved in development, had to learn to manage "up"(service clients) instead of managing "down"(managing themselves and their subordinates). Company A and B lost many of their development people who proved unable to change; CC was able to successfully transform all of their development people to managers.

Each of the three companies adopted an approach to transition based on its own strengths; each approach had unique benefits. CA was able to utilize its already established concept of profit center (billing other divisions for the work done for them) before repositioning. This structure gave each division great incentive to coordinate across functions. The incentives are based on the value of work contributed to the company which in turn enhanced the employee's awareness of quality.

BMS expanded its capabilities of leasing, and marketing as well as its client relationships by acquiring management companies that already had such capabilities and relationships. It developed a standard level of services for company-wide uses. In addition, it invested heavily in intensive training to give employees the skills needed by current and future managers.

CC's approach always focused on its people. Its intensive hiring and training processes were in place before its repositioning. The staff of this firm had capabilities in every discipline needed for the new business focus and also had great loyalty to the organization. The company studied cases of other service provider to identify role-models and trained their people the new attitude required for a service business. This company retained the greatest number of staff in this process. It was able to utilize existing attitudes in the company, such as an owner's perspective or "sense of urgency", to empathize with its service customers.

After repositioning, two of the three firms CA and BMS were each separated into an investment company and a management provider company. CC, in contrast, did not separate but changed its entire focus to provide services.

All three firms have learned to focus of their efforts on customers. CA has taken one step beyond, emphasizing its image as a "seamless organization", perceived as a provider of whatever its clients want. BMS developed its accounting system and reporting system to maximize the usefulness of its reports to its clients, and decentralized other operations to enhance its responsiveness. CC emphasized its commitment "We provide Legendary Services".

All of these firms standardized processes and provided facilities support to ensure uniform quality company wide. They all faced the need to develop the new skills required for asset and property management. To do this, they all developed network and information system sharing, and implemented training and hiring practices designed to achieve the needed capabilities and attitude.

All of them recognized the importance of relationships, repeat business and referrals to service providers. They understood that service quality is subjectively determined, depending on each customer's expectations and on the performance of front-line employees. BMS emphasizes the same attitude toward quality among suppliers and management as well as among employees.

Looking back to Diagram 2.1, we can see that the wheel of profit and sustainability for service businesses applies to these three firms. These firms compete on the basis of quality rather than price. They then design systems and processes, implement training and hiring practices, and provide incentives to motivate their employees to provide quality service delivery. The measurements derived from customers' expectation are compared with real service results to identify the value or the difference between the quality of service and customers' expectation and cost. Thus valued, customer satisfaction plays an important roles in developing loyalty, stimulating repeat business and providing referrals to expand business and profitability.

Comparative Roles

Comparative analysis of roles in the these companies show the following similarities. All three companies:

1. Identify customer needs and expectations.

All of them identified the customer expectations that day-to-day operations management was not enough. Investor clients also required financial reports, marketing and lease analyses, and strategic planning. For tenants, it was necessary to survey other building operations offerings to gain a general idea of what how each property should be performing. In addition, individual needs are identified by consistently communicating with both types of customers.

2. Have a well defined, focused, and positioned service concept.

All of three companies formulate directions and service concepts at their headquarters that every regional agent must achieve. These directions and service concepts follow the needs and expectations of customers.

3. Create and are committed to a measurable standard suited to customer needs and expectations. Then communicate and implement the standards company wide.

All three companies create sets of measurable standards such as responsiveness, reliability, willingness to help, etc. One company has these standards written down in its procedure manual of operation. These standards are used company-wide to ensure quality control and same level of service regardless of a client's location.

4. Design processes and provide capabilities support to achieve the standards.

CA created internal report sheets and an internal billing system; BMS designed reporting packages; CC has a manual of service process and standards. All of them reduce hierarchy in decision-making and the operation of day-to-day management, sharing information among properties, and so on.

5. Educate and manage users of the service.

All of three companies influence their investor clients by presentation of strategy, pro forma, market and lease analysis. BMS takes one step further, using its B College training to educate customers about what they should and can expect from the company.

6. Focus and offer tangibility and visibility of services.

All of three companies tried to make their service tangible and visible. They spend time consistently communicating with customers, emphasizing an image of quality such as the seamless organization or Legendary Service, have some activities (such as a welcome party) or amenities that go beyond the expectations of tenants. For example, BMS acted as a team providing service to ease a clients' work, by putting their report into the same format as the client's own report so it can be easily integrated into their documentation.

7. Invest and put efforts into building service reliability.

All three firms upgrade the skills of their managers by carefully training and hiring, providing facilities support such as information networks, and establish a one-point-of -contact position to increase the perception of reliability . BMS's offers a highly experienced, extremely reliable portfolio manager to each of its clients. CA and CC assure each client that a single account manager will be available to respond to all the client's needs.

8. Build loyalty among customers, employees, and suppliers.

All the companies raise the cost of switching management companies to their customers by providing consistency of quality service spending more time and effort to understand customers, and maintaining and improving quality. Mutual loyalty ensures a long-term relationship between company and client.

9. Create and manage customer relationships and assign skillful employee sto service recovery, and empower and trust his or her judgment.

All three firms create and manage customer relationships through a position called "account manager" or "portfolio manager". Such managers represent the company in any communication with client, create a strategy for them, elicit their needs and complaints, coordinate any work, solve problems for client, and maintain a close relation with each client. All these firms view this position as a very important mechanism in their services. They trust these managers' judgment and empower them in each account.

Comparative Capabilities

Comparative analysis of capabilities in the three companies show the strong similarities. They all do:

1. Possess thorough knowledge of service characteristics.

All of the three companies' managers possess interdisciplinary knowledge of property management, finance, strategic planning, marketing and leasing. In addition, these managers also have interpersonal, communication, presentation, and persuasion skills. They understand customers' perceptions of value, quality and the ways to leverage value over cost to provider and to achieve greater profits. Customer satisfaction is their goal.

These firms recognize that the relationship between profitability of service to the service provider and its value to the customer can be mutually reinforcing. They further understand that maintaining these relationships, consistently communicating, collecting and analyzing the individual needs of customers and continually improving performance are keys. They get repeat business and referrals in return.

2. Understand aspects of organizational capabilities.

All three companies are able to encourage timely decisions through a less hierarchical organization. They give their regional agents full authority especially for day-to-day operations. Beyond that, the authority lies with the account managers who are close to clients.

Two of these firms have replaced control-oriented supervision coaching activities and with positive incentives. They noted that it is inefficient (if not impossible) to inspect every service. Examples are CC's salary and compensation system that aligns compensation with customer satisfaction, and the profit centers instituted of CA.

These firms develop and retain staff members by giving them opportunities to learn and grow. CA has developed an information system with the goal of encouraging information sharing, better customer service, and a "user friendly" information environment. One CC's executive said that it is the responsibility of the firm to provide opportunities for managers to hone their skills. Company B set up B College and an information network. All of them see the importance of people and are prompt to promote qualified managers to important position of account manager.

3. Utilize upper management capabilities effectively.

All these firms use upper level managers as idea-generators, trainers and business developer rather than control-oriented supervisors. This can be viewed as indirectly resulting from the firms' practices of empowerment, sharing information and restructuring of incentive systems to control quality. CA, frees its top executives to build new business. A BMS executive stated that the best training came in-house, from senior people. CC builds on its top person's ability to share the perspective of ownership with client.

4. Understand aspects of quality and cost of failure.

All these firms understand the true costs of poor quality and failure. It is the loss, not just of one customer transaction, but of repeat business and/or referrals. Therefore these firms put considerable effort into the maintenance and improvement of quality. They use a variety of tools like face-to-face or consistent communication, surveys, and other means to elicit and analyze customer complaints. They understand the value of recovery and try their best to keep existing customers. The assignment and empowerment of a position like account manager is designed to serve and carefully monitor the needs of each client.

5. Possess aspects of competitive capabilities.

All three firm now have hard-to-duplicate networks or technology that allow the sharing of accumulated market knowledge databases, the experience of other divisions or regions, and up-to-date information. That combined with a comprehensive customer database through its regional base gives them strategic advantages over other firms. These tools allow them to ensure quality, increase reliability, and reduce perceived risk. Since for a service business, keeping customers is more important than attracting a new one, these firms work to maintain their market share and expand gradually through referrals from their existing customer base.

Comparative Measurements

Comparative Analysis of measurements in the three companies show the following similarities . Their measurements are:

1. Base on customers' expectations and satisfactions with the quality of service.

All three firms measure their performance based on customers' expectation and satisfaction. They use the guidelines derived from annual or more frequent surveys. CA surveys tenants, whereas BMS and CC survey both investor clients and tenants. In addition to surveys, CA senior managers visit properties as well as owners periodically to observe whether the interaction or relationship between its managers and customers are going well. BMS uses survey results for each building but lends more importance to the observed quality of interactions between managers and clients. CC gives equal importance to survey's constructed by outside consultants and its account managers' interaction with clients.

2. Establish from the front-line's self-evaluation.

CA's consulting firm said it was important for an organization to discover its own the problems, and to solve as well as know them. CA succeeded in doing that. CC asks its employees to share what they think the company is doing right or wrong, how to do better, etc. BMS encourages sharing information, sharing experience and advice among managers within different regions or functions, which indirectly helps establish or reinforce company-wide standards of self-evaluation.

3. Emphasized long-term performance over short-term transaction.

All three firms said that their service businesses are based on long-term rather than short-term considerations. This emphasis is reflected in the consistency of customer's satisfaction as shown in the survey, which takes long-term performance into account. CC has provided a concrete endorsement of its belief in the importance of both short and long-term quality performance by its annual "Entrepreneurial Spirit Award" for one -time performance, and "Legendary Service Award" for the one team who consistently serve only quality. At CA, observation of the interaction between managers and tenants by its senior managers is another way to measure long-term performance. BMS's emphasis on consistent communication with clients underscores its commitment to long-term performance.

4. Proportioned to measure and promote both individual and team performance.

All three firms encourage employees to be team players in providing services. However, BMS's measurement in this area is not evidenced clearly. CC supports this in its compensation structure (at least at this time), separately rewarding outstanding individual and team performance. The firm also gives several individual small rewards such as a free trips and bonus for outstanding work at every level. The profit center and internal billing system concept of CA is designed to motivate each department to coordinate better across divisions. In each division senior managers then are responsible for evaluate their team players.

Conclusion

Returning to the diagram 2.1, we see that the theoretical importance of three key strategic elements is borne out in practice. All three companies achieved market growth by paying special attention to these factors. Therefore we can conclude that a firm seeking to successfully reposition itself from real estate development to asset and property management, should place special emphasis on the transformation of roles, capabilities and measurements within the company.

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