

# Challenges and opportunities in aligning real estate and the workplace with business strategy: A survey of leading CEOs

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## ABSTRACT

The following paper contains the results of a global benchmark survey conducted among more than 200 CEOs from some of the world's 'Most Admired': leading Fortune 500 and Global 500 companies. The survey was designed to identify, from the perspective of the CEO, practices that are essential for effective execution of corporate strategy. In all, 34 practices were studied to determine which are



most important to strategy execution. Relocation of a corporate headquarters, or other major facility, and redesign of the workplace were two of the practices considered in the research. By including relocation and redesign within the larger context of strategy execution — one that considers a broad spectrum of operational, market and organisational dynamics — the relationships between real estate, workplace and other essential practices could be uncovered. The results show that real estate and workplace design do synchronise with, and contribute to, the success of changes required in other areas that are critical to execution, making it important for companies to examine closely the impact of real estate and the workplace on company strategy.

The results also confirm CEO awareness of the strategic value of real estate and workplace design, since all who reported relocating or redesigning the workplace did so in order to execute strategy. More significantly, however, the findings reveal that a high percentage of CEOs who reported carrying out a move or a redesign did not perceive that these changes effectively contributed to strategy execution. While the explanation for this finding is beyond the scope of this study, it does suggest one of two things: either real estate and workplace professionals need to master a better understanding of how to align real estate strategy with business strategy in order to add value; or they need to be able to measure better the value and communicate it to the CEO.

**Keywords:** strategy execution, culture, business process, measurements, technology, executive roles, communication

## INTRODUCTION

The proactive and strategic planning and management of corporate real estate and workplace infrastructure continues to be a challenge for many organisations. While the ultimate goal of any corporate resource

is to enable a company's strategic goals, the value and contribution of real estate and workplace decisions to business strategy execution continue to be misunderstood and, in many cases, under-appreciated at the senior levels of the organisation. This reality is underscored by the research findings reported within this paper. While the findings help to highlight key relationships among real estate and workplace with a variety of operational, market and organisational dynamics, they also show that, from the CEO's perspective, there is work to be done to leverage physical assets more successfully in the pursuit of strategic goals.

In order to place real estate and workplace within a larger strategic context, one that goes beyond the traditional financial metrics that currently define the industry, and to understand their relationship to practices that are absolutely essential for successful strategy execution, CB Richard Ellis, Inc. and Knoll, Inc. co-sponsored a global benchmark study to learn about and identify those practices. The study was completed at the end of the first quarter of 2002. The Hay Group, a global human resources consulting firm, conducted the research and the primary sponsor of the study was *Fortune* magazine.

## BACKGROUND

The Hay Group partners annually with *Fortune* magazine to identify America's and the world's 'Most Admired', most successful, public companies and to learn about and share the practices that make them the most successful and admired in their industry. More than 200 CEOs from Fortune 500 and Global 500 companies participated in this latest global benchmark study. The primary objective of the research was to gain insight into the strategy implementation practices of major

corporations. This included identifying practices that are essential for strategy execution, as well as identifying the barriers to strategy implementation. In addition, the research enabled a comparison of strategy implementation practices between the leaders — that is, Fortune's list of the top three rated public companies in 58 industries — and other peer companies on the Fortune 500 list. In total, 115 leading companies and 88 peer companies participated.

### RESEARCH OBJECTIVES

From a real estate and workplace perspective, the objectives were the following:

- To determine if changes in the location of corporate headquarters, or other major facilities, were required to implement business strategy;
- To determine if changes in the design of the physical environment were required to implement business strategy;
- The success of those changes, when made, in effective strategy implementation.

The authors were also able to derive correlations of real estate location and workplace design with those factors that are most essential to successful implementation of business strategy. The essential factors identified differentiate leading companies from peer companies in that the leaders are stronger in these areas and as a result are able to execute more effectively than their peers.

### OVERVIEW OF THE FINDINGS

CEOs were asked to report on the extent to which various practices occurred to implement their company's business strategy. These practices were diverse in scope, ranging from having a detailed

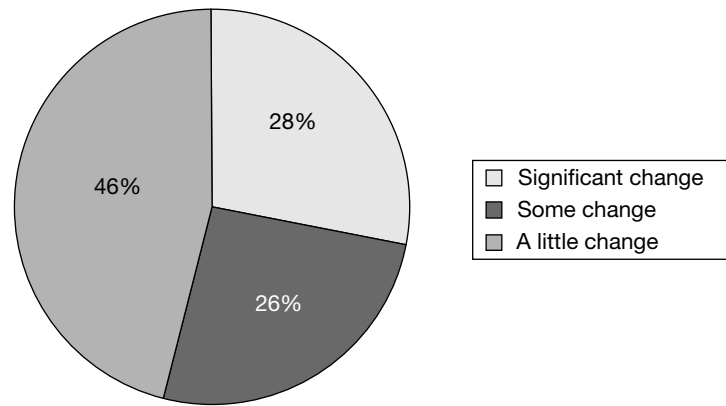
implementation plan to holding executives personally accountable to staying the course and celebrating milestones. In total, 20 factors made up the list of practices, and CEOs ranked each according to whether they had occurred to a very great extent or not at all.

The study also explored the need for other, more fundamental changes that may have been necessary to execute business strategy. This list comprised 14 items. CEOs were asked not only whether changes in these areas were necessary, but whether the changes, when made, had been successful to date. These factors were also varied in scope, ranging from the need for executive teamwork, to skills and competencies of employees, to changing business processes and corporate culture. It was within this list of more fundamental changes that the location of corporate headquarters, or other major facilities, and the design of the physical environment were included. Other areas were also investigated, such as overall clarity of the business strategy and whether the company operates within short-term or long-term objectives.

### PRACTICES CRITICAL TO STRATEGY EXECUTION

The study's findings reveal some key differences between leading companies and peer companies in their ability to implement business strategy successfully. While both leaders and peers agreed that having a clear, overall business strategy is important, peer companies reported less continuity in business strategy, changing strategies more frequently than the leaders, and not implementing as successfully. Significant differences between leaders and peers were also found in terms of communication, with leading companies reporting that their strategy had been well communicated and was under-

Figure 1 Of the 115 leading companies that participated in the survey, CEOs from nearly one third of them reported changes in location in order to implement business strategy



*N = 32 out of the 115 leading companies surveyed*

stood by management throughout the company. In addition, leaders tended to have a more balanced approach with respect to short- and long-term strategic planning objectives, with peer companies reporting a shorter-term view. As a side note, real estate and workplace design were also highly correlated with a longer-term strategic view, which should come as no surprise given the magnitude of investment in these areas.

Results reveal that there are four critical factors that rise to the top when it comes to strategy implementation. The leading companies excelled in these areas, which sets them apart from their peers:

- Clarity of roles and accountability at all levels of the organisation
- Teamwork among executives
- Performance measurement and tracking of progress
- Culture.

The findings also demonstrate that real estate and workplace play a role in a

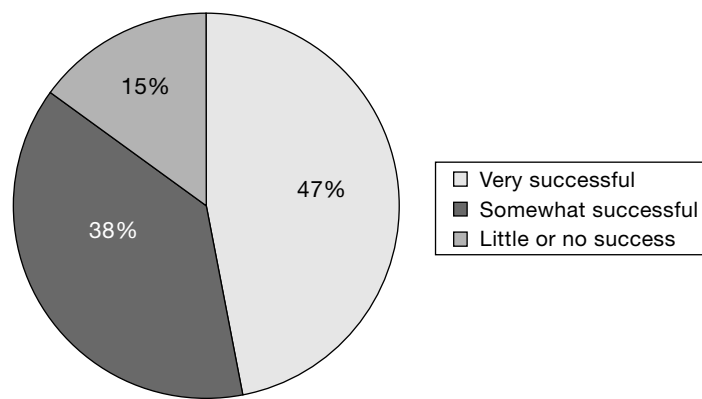
company's ability to execute strategy successfully because they are closely linked to these four factors.

## RESULTS FOR REAL ESTATE

The following results focus specifically on CEOs from leading companies who reported that they relocated corporate headquarters, or other major facilities, in order to implement business strategy. Despite the magnitude of a major corporate move, 32 of the 115 CEOs surveyed in this group reported that they did change location to execute strategy to a great degree or to some degree. Although 47 per cent of the CEOs indicated that the relocation was very successful in supporting their strategic goals, 53 per cent reported the moves were only somewhat, a little or not successful.

Results also uncovered several other areas of strategy execution with which real estate is associated. In order of strength of correlation, these factors include:

Figure 2 Most companies that changed the location of corporate headquarters or other major facilities to implement business strategy reported that the change was very successful or somewhat successful



*N* = 32 out of the 115 leading companies surveyed

- *Success of workplace design*

Relocating is an opportunity to rethink space. Companies are not restricted by past practices; they often seek to leverage the move as an opportunity to reinvent and improve how they do business and provide an environment to support it.

- *Clarifying executive roles*

Relocation is an opportunity to rethink how executives relate to the organisation and to each other. It is an opportunity to challenge existing practices and norms as well as to explore improvements in how the organisation operates.

- *Success in changing the technology*

As new technologies become available a corporate move may be required to achieve access to new capabilities or infrastructures.

- *Products or services provided to customers*

Location not only provides physical proximity to markets, but can be an important determinant in the company's ability to acquire needed skills and talent.

## RESULTS FOR WORKPLACE DESIGN

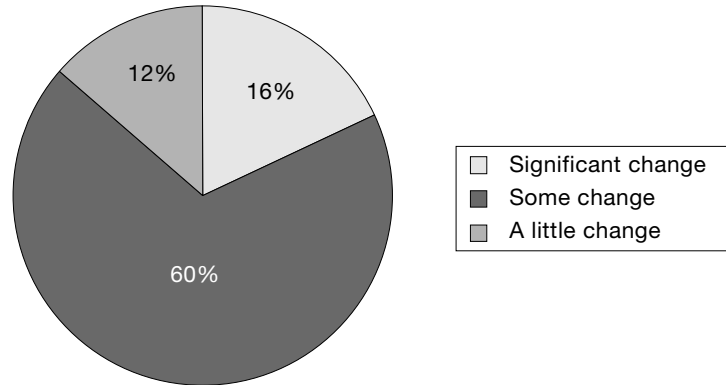
Nearly half of the 115 CEOs from leading companies that participated in the survey reported that changing the design of the workplace was required to a great degree or to some degree in order to implement business strategy. Only 37 per cent reported that the redesign was very successful.

The following results, however, belie the CEOs's reporting of overall success rates, since these findings demonstrate that workplace design facilitates a company's ability to make necessary changes in other areas of practice that are essential for strategy implementation, including the top four factors. In order of strength of correlation, these areas include:

- *Relocation of corporate headquarters and other major facilities*

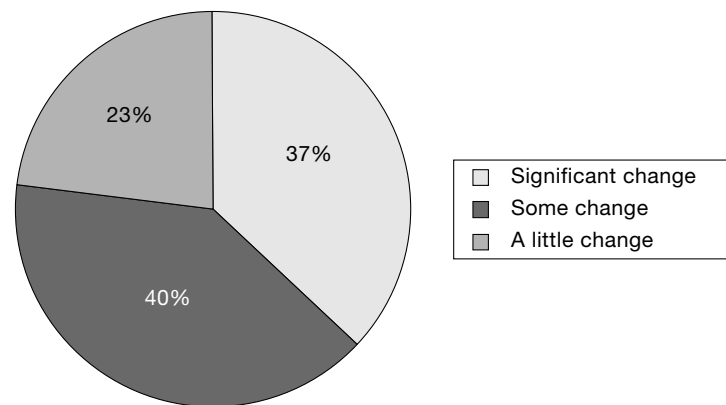
It is clear from the results that relocation of facilities and workplace design are highly interdependent. The success of one is closely tied to the success of the other.

Figure 3 Of the 115 leading companies that participated in the survey, nearly half made changes to the design of their physical workplace in order to implement business strategy



N = 52 out of the 115 leading companies surveyed

Figure 4 Of the 52 companies that redesigned their workplaces to implement business strategy, 37 per cent reported the effort was very successful



N = 52 out of the 115 leading companies surveyed

- *Measuring and tracking performance*  
Leading companies excel in this area, and redesigning the physical work environment enhances their ability to measure and track performance successfully.
- *Executive teamwork*  
The physical environment is a conduit

for the rapid exchange of knowledge and information. The flow of communications required for speed of decision making can be enhanced and supported by innovative workplace design.

- *Products and services provided to customers*  
CEOs report that successful change in

these areas is enhanced by workplace redesign. As products and services change, the talent base may change, resulting in new requirements for workplace design and performance.

- *Corporate culture*

The physical workplace has the ability successfully to reinforce identity and culture. A strong culture is one of the attributes of a leading company.

- *Business process*

Workplace design either supports or hinders business process. The CEOs participating in this study reported that success in changing business processes is supported by changes in workplace design.

- *Clarity of executive roles*

Workplace design plays a part in clarifying executive roles by reinforcing desired culture, behaviour, expectations and ways of working.

## CONCLUSIONS AND IMPLICATIONS

### Conclusions

The results of this research effort demonstrate statistically the relationships between relocation of real estate, redesign of the workplace and other key factors critical to the execution of business strategy. The framework for the study defines a broad operational, market and organisational context in which strategy execution occurs: one that goes beyond the traditional financial metrics that typically define real estate and workplace effectiveness. In order to understand the significance of these results, it is also important to recognise that a robust strategy requires synchronisation of multiple factors in order to create value. In this case, the authors were most interested in learning specifically about those factors that are critical to strategy execution and understanding

their relationship to real estate and workplace.

For example, The Hay Group's research consistently shows that having a strong culture is an attribute of a 'Most Admired', leading company. According to the results of this study, a strong culture is also one of four factors critical to a company's ability to execute strategy successfully. Several CEOs reported in this survey that changing their corporate culture was required in order to execute strategy. In cases where the CEO also reported redesigning the workspace to execute strategy, it was found that the culture had been successfully changed. This relationship occurs within each of the other three factors essential to strategy execution: roles and accountability, executive teamwork, and performance measurement and tracking. In other words, redesigning the workplace synchronised with the company's ability to make changes successfully in each of the other areas critical for strategy execution.

Additionally, results clearly demonstrate the strong interdependence between real estate and workplace design, with success in one area being highly contingent upon success in the other. It would follow, then, that the relocation affects the success of the workplace design, which in turn affects the company's ability to make changes successfully in those areas essential for strategy execution. This implies the need for synchronisation across multiple areas — real estate, design and other critical factors — to achieve maximum success.

Real estate relocation was also shown to have its own direct set of factors or conditions which might indicate when a move would be more likely, or indeed necessary, in order to execute strategy. Changing products and services and changing technology were chief among these factors.

Finally, these findings provide a 'report

card' from the executive level, indicating their perception of the success of relocation and redesign efforts. On the positive side, a fair percentage of CEOs reported that their projects were 'very successful' in contributing to the company's ability to execute strategy. However, considering the magnitude of the expense and the upheaval and downtime for employees, even a 50 per cent success rate suggests that such moves are risky investments. While a full explanation for this result is beyond the scope of this research, a few possible causes for consideration are proposed here. These might include poor execution of projects; inability successfully to align real estate and workplace with business strategy; and/or the lack of good, quantitative data to demonstrate and communicate effectively the value of the move or redesign to the CEO.

### **Implications**

Strategic real estate and workplace planning requires research, analysis and the ability to communicate the strategy in a way that is meaningful to the entire organisation, including the CEO. Historically, non-uniform processes and standards, along with limited data, poor communication and a lack of performance

metrics, have resulted in the delivery of real estate services to internal customers in a reactive, tactical and task-oriented manner. In order to position corporate real estate as a strategic entity within the corporation, it will be necessary to develop internal partnerships that more closely align real estate strategy with the company's business strategy.

The results of this research suggest that there is ample opportunity for corporate real estate to deliver significant value to a corporation if the approach is structured to allow the role to be value-added in nature. Enabling a change in corporate culture, clarifying executive roles, or successfully supporting executive teamwork and emerging technologies can be a far cry from typical financial metrics, which, while convenient and easily measurable, may be removed from the unique strategy of the organisation. By embracing an expanded role, corporate real estate will be in a position to enhance real estate service delivery, improve asset utilisation and create value that ultimately reduces costs and delivers savings to the bottom line. This will require leadership within the ranks of corporate real estate and strong support from the executive levels of the corporation.