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Maximising FM's contribution to shareholder value Part 2: Tactics for improving the capital budgeting process – and producing results

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Abstract

Part 1 of this paper answered in the affirmative that the capital budgeting process for fixed assets can be improved (see *Journal of Facilities Management*, Volume One, Number One). In part 2 more than 20 improvement tactics are identified and explained. Tactics range from the simple (identifying assets that need to be written off) to the complex (tax segregation strategies). Some can be implemented by individuals (sensitivity analysis), while others (budgeting and planning software) impact all areas of an organisation. In addition to improvement tactics, a framework for improvement is outlined and potential benefits are identified.

INTRODUCTION

'Can shareholder value be increased by improving the capital expenditures process for fixed assets?' was the question posed in Part 1 of this two-part paper. The answer was a definitive 'yes', with the caveat that an understanding of the process and a functioning, continuous capital budgeting system were prerequisites to improvement activities.

Executive sponsorship, leadership and a vision of a better system were identified as the fundamental building blocks that enable improvement activities to produce results. This paper is a straightforward list of improvement opportunities that have been successfully implemented by many organisations. Although the list is not comprehensive, it covers activities that can be undertaken by individuals as well as organisations. Some are simple and some are complex — touching every department in an enterprise. The list and a general understanding of the benefits that have been achieved in improving the system are offered in the hope that the reader can identify opportunities that can trigger performance efforts.

IMPROVING THE PROCESS — TACTICS TO IMPROVE THE CAPITAL BUDGETING PROCESS

The work of facility planners, architects, financial experts,

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engineers, consultants and various corporate groups is 'knowledge work' and the arena for capital budgeting stretches across the enterprise. Today, many companies are working on Internet time, that is they are forced to make decisions quickly and often have to 'Make it up as they go'. 'Making up a capital budget as you go' is a tall order for facilities that often take two years to design and build. The tactics listed in this paper, however, will go a long way to building the competencies that organisations need to operate in the new environment. Improvement ideas range from the highly technical (Cost Segregation Studies) to the simple (identifying assets that need to be written-off). Some require individual skills (sensitivity analysis), while others require the use of specialised software (Serviceability Tools and Methods). Regardless of the level of organisational experience or resource availability for an improvement project, there should be ideas among those listed below that can be implemented in many organisations.

After a continuous, capital planning system is in place and functioning within an organisation, along with improved computer and organisational support, there are six areas where performance can be improved.

- (1) Implement financial tactics
- (2) Reduce the risk of capital expenditures
- (3) Increase asset performance
- (4) Improve the project delivery process
- (5) Design and build better buildings
- (6) Work smarter — not harder

(1) Implement financial tactics

Big ticket financial tactics such as sale-leasebacks and synthetic leases are methods of improving financial performance by taking assets off the balance sheet. Recently, eBay was looking for a new home and room to grow in Silicon Valley. After analysing the options available, they decided to use a synthetic lease for their new property rather than an outright purchase. The synthetic lease combined many of the operational advantages of ownership with the financial benefits of leasing. With a synthetic lease, lenders are required to establish a trust, which buys the real estate and leases to the corporation. If structured properly, a synthetic lease provides an off-balance-sheet transaction that improves the income statement because there is no depreciation expense. Payments are similar to interest-only loans, and cash flow can be improved because tax depreciation can be expensed. eBay estimates a saving of several million dollars in the first year.¹⁷ Companies can either do a sale-leaseback or an asset-backed loan to unlock the potential shareholder value of their real estate. Asset-based loans such as sale-leasebacks are attractive to many organisations when the economy heads south, because cash flow loans can be hard to come by. While retailers have traditionally been the chief proponents of

Synthetic lease

Sale-leaseback

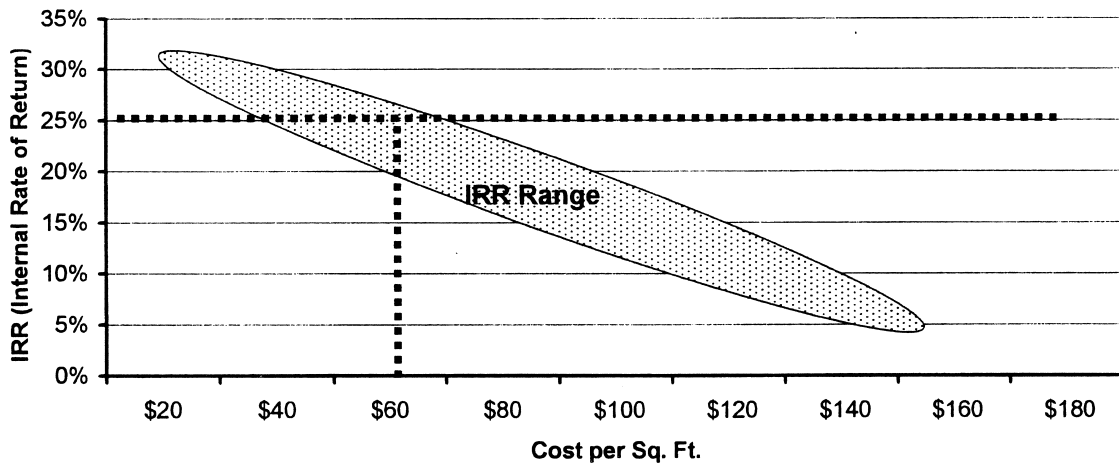


Figure 2: Sensitivity analysis: IRR for converting manufacturing to office space

sale-leasebacks, many US corporations in other industries have increasingly employed this method of financial engineering to unlock the value of unproductive assets.¹⁸

Accelerated depreciation

Accelerated depreciation increases shareholder value

US tax law allows classification of certain building components as personal property which benefits owners with accelerated depreciation and increased cash flow. In order to take advantage of these benefits, a tax law firm works with the owner to document which construction items can be classified as personal property, then corporations consult with the tax director to provide the appropriate documentation. Total Advantaged Design (TAD)¹⁹ is a patented, proactive process that can yield a net present value in federal tax benefit from 8 per cent to 12 per cent of hard construction costs. Cost segregation studies occur after construction and yield lower returns. TAD promotes environmental responsibility and facility flexibility through the specification and use of removable, relocatable and re-usable building components. Facility and environmental benefits each normally exceed tax benefits. Benefits of cost segregation studies are not as great as TAD, owing to the reactive nature of the studies.

Total Advantaged Design

Cost segregation studies

An example of a relocatable building component might be a moveable wall system. With a moveable wall, the company reaps tax savings and facility management benefits through the benefit of a re-usable system. The environmental benefit of keeping a product that can degrade and emit dangerous gases out of the landfill is a benefit that accrues to the community. TAD is a win-win situation for the company, the environment and the community.

Sensitivity analysis provides answers to planning questions through spread sheet analysis — not through detailed drawings and cost estimates

A corporate architect was charged with completing a planning

Sensitivity analysis

study to determine whether office groups could be economically moved into surplus manufacturing space. He knew the lease cost savings and actual construction cost of a similar project. Rather than produce drawings and cost estimates, he created an IRR model in a spreadsheet where one variable (construction cost) could be changed. He charted the results (see Figure 2) to show a range of values to reflect the imprecise nature of preliminary calculations. The graph immediately showed that the planning study should be cancelled because costs would most likely be higher than the previous project's cost of \$60 per square foot, which barely cleared the hurdle rate for facilities projects. Sensitivity analysis increases the efficiency and effectiveness of facility planning staff by freeing up time to focus on value-added activities.

Better budgeting planning with new software applications can eliminate financial surprises

Budgeting and planning software

Spreadsheets were not designed to be collaborative tools. When they are used to manage the capital budget, it can take an unacceptable amount of time to connect information flows across an organisation. With business planning transforming from a once a year event to a continuous process, new tools have been developed to address changing business needs. A new wave of collaborative software for managing the budgeting and planning function of an enterprise is available for small, medium and large-scale enterprises. For the most part, these applications are flexible, and allow for easy consolidation and analysis of data. The capital budgeting portion of these new systems requires immediate, timely and accurate facility projections that can change at a moment's notice.

System replacement

Do not classify system replacement work as operating expense (it is recapitalisation)

If replacement building subsystems are expensed rather than capitalised, they will negatively impact earnings and could lead to problems with accounting for property taxes and depreciation. 'Remember that classification of work as capital or expense is a tax law issue, not merely a management decision', says Dave Cotts.

Equipment write-offs

Write-offs generate cash flow

Recently, a facility manager was concerned about how he could create value for the enterprise. The FM systematically inspected building equipment at several sites and identified over \$1m in depreciation write-offs and property tax avoidance for equipment that had been removed or replaced. No adjustments to the accounting system or property tax records had been made, and his initiative inspired the company to address this lack of coordination between engineering and accounting computer systems to capture even more savings.

Performance contracting

Capital expenditures for energy-related equipment can often be

Performance contracting

Enterprise energy management

financed by service providers where the payments are financed through decreases in the utilities' operating budget. This was a hot industry a few years ago, and performance contracting could re-emerge if energy prices escalate in the long run. One of the forms that performance contracting may transform to is enterprise energy management, which looks at the entire spectrum of energy use and expense from procurement to consumption in order to identify savings. Comprehensive reviews such as enterprise energy management may not yield significant results for individual facilities, but for portfolios there can be significant savings. For example, a 1 per cent reduction in the energy cost for all US government buildings could yield an annual savings of \$80m.²⁰ The skills and resources to implement this type of programme do not make sense except when dealing with real estate portfolios. Performance contracting creates shareholder value by decreasing facilities-related capital expenses by paying for the programme from savings.

(2) Reduce the risk of capital expenditures

Strategic facility planning provides a framework for businesses operating with less certainty

Organisations will have to succeed in improving their capital budgeting processes owing to changes in the business environment and management expectations. According to Dave Mager, an e-business consultant,

'Internet strategy is about balancing the value of strategic certainty versus time to market.²¹ Internet time brings a new urgency to strategy. Consulting firms for instance, need to help companies operate in the 60 to 70 per cent range of certainty versus an 80–90 per cent range. They have to consider how that changes the strategy cycle.'

In a nutshell, companies are now 'making it up as they go'.

'Making it up as you go' is a tall order for a capital budget that includes projects that can take two years to design and build. There are ways to align the capital budget with the realities of demands for increased planning speed and flexibility, however. The answer to the challenge lies in re-inventing how strategic facilities planning is accomplished. Strategic facilities planning is the process of providing a physical and financial roadmap for fulfilling an organisation's infrastructure requirements. Most organisations do it,²² but there is little uniformity of practices. It is usually heavy on the architecture or interior design and light on scenarios and financial analysis. With strategic facilities planning under Uncertainty, the emphasis is flipped to include a heavy commitment to financial analysis and a minor emphasis on the architecture and interiors portion of the plan, so that the plan can be rapidly integrated into a capital budget to support changing business plans.

With companies operating in the 60–70 per cent range of certainty, strategic facilities planning needs to consist of an array of scenarios that have costs, schedules, benefits, financial impact and risks identified. Each plan should have a statement of purpose, clear assumptions, time horizons and attention to business discontinuities that might drive the plan. When the business environment changes with no notice, the proper scenario needs to be implemented quickly. The lowest cost opportunity for companies to decrease time to market is in the pre-project planning stage (including strategic facilities planning) — not during construction.

Align the strategic facilities plan and business plan

Facility Manager, Pete Adams, of CenterPoint Human Services had been struggling for years to get proper funding for recapitalisation, operations and maintenance budgets as well as a building plan.

‘It wasn’t until I developed a business-driven strategic facility plan addressing both capital operations and maintenance issues (using the Serviceability Tools and Methods format²³) that the CEO and board supported my proposal. I then consolidated the plan into a simple document and capital budget that the CEO could use to lobby for funding from public agencies. I started planning two years ago and the plan for my 30 facilities will probably not be fully implemented for a few more years. FMs in the public sector need to understand that they need just as strong a business case as those in the private sector and that funding and implementation take a long time.’

(3) Increase asset performance

Portfolio management

Utilise portfolio management, to link business and real estate strategies

Portfolio management involves high-level decisions about when to buy, sell, renovate or lease facilities. Organisations that operate in a decentralised real estate management mode often can increase the performance of their portfolio with a portfolio management strategy. There is a growing awareness in business that a real estate portfolio is different from a financial portfolio, and that it is really a factor of production, analogous to machine tools, delivery trucks and computers.²⁴ The Corporate Real Estate Alliance defines portfolio management as

‘Managing real properties as a group in order to achieve greater corporate benefits from them as:

- **productive working environment assets**
- **financial assets, and**
- **strategic assets**

above the benefits derived from managing them individually.’²⁵

With a portfolio management approach to real estate, the portfolio

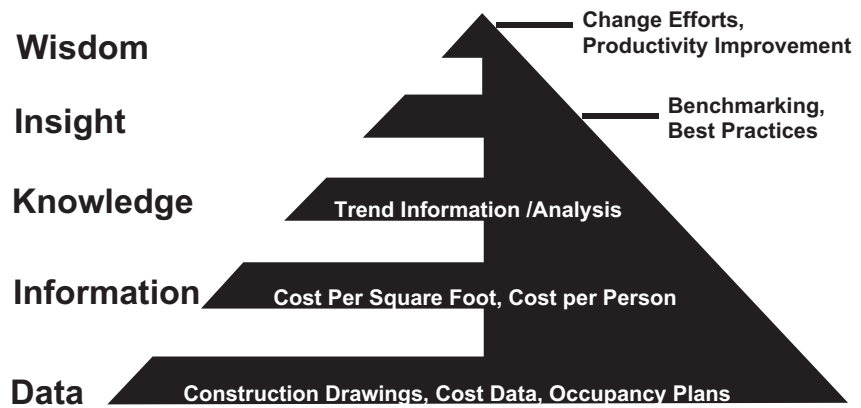


Figure 3: 'Pyramid of knowledge'

supports operations of the core business. Portfolio managers support the enterprise and give direction to individual asset managers, while facility managers, planners, project managers and others provide technical support for the asset and portfolio managers. This coordinated approach to management adds value to the enterprise by aligning a forward-looking support organisation with the needs of the core business.

A recent study by Fransson and Nelson²⁶ indicates that even the best corporate real estate databases do not support high-level portfolio decision making. Developing a knowledge management system for all real estate should be integrated with an executive-level reporting and information system. Portfolio management, guided by a strategic facilities plan, provides the key link between business strategy and real estate strategies required to support business efforts. Portfolio management is also a key element in avoiding future unneeded occupancy and construction cost.

Portfolio decision making

Performance measurement

Computer-aided facility management

Measurement of asset performance can lead to improved performance

Most organisations have adopted some type of 'balanced scorecard' or multiple methods for measuring performance, and facility organisations need to think systematically about the information that is needed to support effective decision making and increase shareholder value. As with many functional areas, facility managers are drowning in data, but thirsting for knowledge. Computer-aided design and computer-aided facility management programmes let facility managers know the location of every phone line, but do not provide insights into managing better. The 'pyramid of knowledge' in Figure 3 illustrates how layers of information build upon each other to create value for the organisation.

The lowest layer on the pyramid represents pure data such as facility size or budget line items. The second layer starts relating pieces of information. For example, cost per square foot matches area and budget data from the first level to produce a facility

benchmark. At the third level, trend analysis such as change in cost per square foot over time provides meaningful knowledge about the facility and history. Insights can be gained by benchmarking best practices, and the pinnacle of the knowledge pyramid, 'wisdom', can be reached when change efforts produce productivity improvements or create value for the organisation.

Better utilise existing assets

Portfolio management strategy

The number one portfolio management strategy of the US General Services Administration is to 'use what you have first'.²⁷ All facility managers and designers can cram more people into existing facilities. The challenge in today's environment is to balance the need for the effective use of existing assets with the need for speed, growth and swing space to get reorganisation projects moving rapidly. Real estate is to be used. An extensive review of portfolio management literature has found the principle 'if real estate is not being fully utilised, it should be sold' as a universal truth. Few facility planners consider this an option except during a crisis, which is the worst time to sell (everyone else is selling). Facility planners might want to reconsider the 'universal truth' if they are located in an area where developable land is scarce. The reluctance to part with facilities could be a function of familiarity occupants and a sense of 'ownership' that does not consider shareholder value.

Asset disposition

(4) Selecting the right project delivery methods can help create shareholder value by supporting the objectives of the enterprise

Design-build

Matching project delivery method with organisational needs is critical to implementing projects successfully. For example, an organisation that is expanding into a new corporate headquarters might consider cost, reduction of risk, and design quality to be key issues. With this building type and key considerations, Design-Build is an appropriate project delivery system. While the owner gives up some control in achieving design goals, control of the budget and risk trade-offs make Design-Build an attractive approach.

'Just-in-time' project delivery

The same company, however, might use a different approach when dealing with the need for a new R&D lab. 'Just-in-time' project delivery might be used because of the desire for owner control and speed in consolidating existing lab occupants to make room for the additional staff until the new lab is finished.

Construction management

Construction management, with a limited list of invited subcontractors, might be used to deliver the new building because of the complexity of the project and the desire for speedy delivery and high construction quality.

'My position is that any procurement process can be used simultaneously with any other method on a single project

Table 1: Project delivery assessment matrix (US construction)^a

	Traditional design/bid/build	Construction management — Agency approach	Construction management — At risk approach	Design/build	Bridging ^b	Just-in-time ^c building fit out
<i>Project characteristics</i>						
Complexity	Moderate to low	Medium to high	Probably high — May have multiple bid packages	May be driving factor in consolidating responsibility	Likely high, requires expertise	Minimal
Schedule	Reasonable — not a key factor	Probably tight	Aggressive	Responsibility shifted to consolidated team	May be a driving factor	Critical
Budget	Normal importance	High priority — fixed	High priority, likely fixed, possible GMP	Likely fixed	Normal importance	Likely exceeded to meet schedule
Programme resolution	Well resolved	Pre-design likely	Not a driving factor	Not a driving factor	Not a driving factor, agent firm resolves	Programme fully resolved
Design quality	Not a driving factor	Complexity may drive higher quality	Complexity may drive higher quality	Not a driving factor	Likely needs to be high due to complexity	High by corporate standard
Construction quality	Normal	Complexity implies higher quality	Complexity implies higher quality	Normal	Complexity implies higher quality	High by corporate standard
<i>Deal structure</i>						
Compensation	Lump sum — all participants	Fee for service or lump sum	Standard fees to design team, GMP to CM	Lump sum to consolidated team	Both design firms get fees so overlap possible	Time and materials
Contract arrangement	Owner/architect and owner/contractor	Multiple Design/GC; subs bid or negotiate	CM or variant, bid or negotiate construction	Single point contact with team	Multiple design contracts	Multiple letter agreements
Delivery team structure	Typical project design and construction team	Standard design team plus CM	Standard design team plus CM	Contracting and design consolidated	Scope/design firm yields control to production team	Design and construction
Disciplines required	Moderate	Breadth required	Complex project; high degree of experience	Experience in Design/Build needed	Maintain clarity of roles, focus on design	Critical; repetition builds experience; repeat work
Experience needed	Onus on GC during construction	Unresolved — architect and CM must sort out	Ambiguous — CM at risk, therefore more aggressive	Single point to owner	Design and agent; design firm; tech; production	Evenly divide des. vs builder, schedule critical
Responsibility allocation	Traditional architect as agent	Architect as agent; CM as owner's rep; GC as consultant	Architect as agent; CM as contractor — 'open book'	Consolidated	Vision of project must be shared in production	Critical to maintain tight time frames
<i>Legal/risk management</i>						
Liability	Standard	Standard, but does CM presence spread risk?	CM at risk, but design team further exposed	Single point — first line of defence — design team	Technical liability shifts to production architect	Overlapping schedules; liability shared
Dispute resolution	Typical ADR, mediation litigation (partnering)	Standard, but partnering likely	Standard, but partnering likely	External — standard; internal — good question	External — standard; internal — good question	'On-line' due to schedule
Conflict of interests	None	CM as preconstruction consult. A conflict?	CM as preconstruction consult. A conflict?	Potential to design team	Possible if production firm assoc. w/GC	None
<i>Project control</i>						
Schedule	By contractor	By CM	By CM	Owner will look to consolidated D/B team	By GC	All parties (owner too) bear equal responsibility
Cost control	Contractor/architect	By CM in consultation w/architect	By CM in consultation w/architect	Internal D/B team issue	Need accurate cost proj. during scoping, control in CA	Primarily to builder, as work is fairly predictable
Quality control	Architect/contractor	By CM in consultation w/architect	By CM in consultation w/architect	Internal D/B team issue	Scope defined by design firm, tech. by prod. firm	By contractor

^a The Project Delivery Assessment Matrix is part of a special report of the 'Cost, Time & Risk' conference sponsored by the American Institute of Architects in 1993. The Chart was prepared by Phillip G. Bernstein, Symposium Coordinator and senior associate, who was at Cesar Pelli and Associates at the time of publication.

^b Bridging is similar to Design/Build. With Bridging, an architectural firm is engaged for Programming and Schematic Design. Then the plans are turned over to a firm associated with a Design/Build contractor for completion of Design Development and Construction Drawings.

^c Lynch,²⁹

whether it's design-bid-build, construction management, construction management at risk, design build, etc. Call it "nested procurement". (Paul Doherty, chairman of the American Institute of Architects Design-Build Professional Interest Area)²⁸

Nested procurement

An example of nested procurement would be the core and shell built with Design-Build, the interiors with construction management at risk and the furniture with construction management led by a consultant. With nested procurement, each procurement method is matched to a desired outcome.

Table 1 lists major performance characteristics for six US project delivery types.

Time to market

Faster projects reduce time to market, which can increase profits

In today's market, companies have short windows of opportunity to develop and roll-out new products and services. Customers want products now, yet the critical path of corporate roll-outs often flows through the construction project. One approach to condensing time to market is condensing the construction schedule — a technique that can often lead to higher construction costs. Re-inventing the strategic facility planning process to include anticipation of business change and detailed scenario development are low-cost methods that can support decreasing time to market. Some say the design process for typical commercial structures, which consumes about 20 per cent of the project schedule, can be condensed by up to 60 per cent.³⁰

Corporate roll-outs

(5) Design and build better buildings

Green architecture

Green architecture can benefit the community with no additional construction cost

The coming green revolution in architecture has arrived in full force in the US (it arrived in Europe several years ago). Herman Miller recently built a manufacturing facility near Atlanta where the traditional water retention pond was replaced with wetlands interspersed throughout the parking lot. The parking lot was not a wasteland of asphalt, but was a series of triangular spaces set in an attractive landscape. The concept worked for the environment, the community (it is attractive, absorbs storm water run-off and provides natural habitat) and the company, which got many intangible benefits for about the same cost as the traditional approach of having an ugly retention pond blighting the site. The Herman Miller site is but one of many that are profiled each month in the architecture press. Facility managers would do well to keep abreast of developments in this field, because their job is to create value for the enterprise. Green architecture no longer has potential benefits — the benefits can be realised here and now and can yield positive financial returns in many facets of design — today.

New generation of commercial buildings

In the future, building performance will increase and operating cost will decrease (for the building of the future)

There is a convergence of trends that will positively influence a new generation of commercial buildings. Green architecture, more efficient building envelopes, design for climate, more effective and efficient HVAC systems and rising energy and operating expenses will combine to create a more diverse architectural landscape — especially in the US, where most commercial buildings look the same regardless of climate and location. In the future, facility managers will not know what the building or site will look like when they start the design process, because the design will be developed in response to climate, site and other factors. This is a significant issue for many organisations, because they use architecture to communicate their status or reinforce corporate culture. Look for more executive involvement in interior and base building design. The current Secretary of the Treasury, Paul O’Neill, exemplifies this role of the CEO in shaping corporate facilities. At a recent American Institute of Architects conference in Portland, he went as far as to call himself the ‘designer’ of his new, award-winning headquarters building while he was at Alcoa.

The US is working to improve the performance of buildings and the construction process with a joint initiative between industry and the US Department of Energy (DOE) called ‘Building Technology Roadmaps’.³¹ The ‘Building Technology Roadmaps’ provide a joint 20-year vision of where four key areas (lighting, windows, building envelope and high performance commercial buildings) could be. The partnership is a natural fit as the DOE knows research, and industry knows the market. ‘There are monetary and energy inefficiencies throughout the building process’, says Dru Crawley, programme manager for commercial buildings research and development for the high-performance commercial building roadmap.³² The visions are being formulated to include windows that will become appliances, using transparent gels to supply an insulation factor of R-10 per inch. Sounds farfetched? The vision is based on technology that is currently under development by Aspen Systems Inc. of Marlborough, Massachusetts. In fact, integrating technology breakthroughs of each of the four areas into whole building design will provide buildings that reduce maintenance and operating costs, reduce construction time, material used and energy consumed and cost less than buildings today.³³ If these technologies come to pass, could entire building portfolios become functionally obsolete over the next two decades?

Technology breakthroughs

Building standards/Universal plans

Universal plans

Universal plans and building standard design elements were real breakthroughs in the 1980s — they reduced design and relocation costs and allowed for better asset utilisation. Today, however, the cartoon strip Dilbert spoofs the behaviours and attitudes of organisations with rows and rows of identical cubicles. As the

rows and rows of cubicles give way to a variety of alternative workplace strategies, facility managers need to keep in mind that standards, benchmarks and design guidance are still necessary for everything from home offices to teaming spaces. The fluidity of new organisations will transform the workstation standards book from a handy paperweight to a significant reference document that aligns design efforts and asset performance with goals of the enterprise.

(6) Work smarter – not harder

Corporate lessons learned prevent repeated expenditures for project deficiencies

Corporate lessons learned

In large enterprises, there are periodic construction projects that have deficiencies known to some but not all in the organisation. These deficiencies can cause significant cost over-runs and operational challenges. In some cases, they happen again and again. The US Army Corps of Engineers has developed a Corporate Lessons Learned programme for all areas of the organisation. This programme is a sustainable approach using a distributed work environment that supports Corporate Lessons Learned, operations and sharing. One example of the benefit of this system is where the knowledge of plan reviewers for complex or specialised projects is made available for new reviewers throughout the organisation in a systematised format. This eliminates the repetition of costly mistakes in different locations. The learning curve for plan reviewers and other knowledge professionals is shortened, and the enterprise receives the continued benefit of expert review — even with new personnel.³⁴ Large organisations are increasingly experimenting with Corporate Lessons Learned, and the Corps of Engineers application is one of the groundbreaking, successful applications that includes the field of facility management.

Project quality

Defining project quality can help avoid excess project expense

If an enterprise procures a ‘standard’ building and does not need all the standard features, waste has occurred and future projects could avoid the cost if there were only a way to match organisational needs with the serviceability of the facility. One strategic facility planner recently used Serviceability Tools and Methods (ST&M) as an outline for defining serviceability and design quality on a project. The engineers were awestruck. They said

‘Here’s the way things worked up until now: We would ask clients about HVAC system performance. The clients would say “use your best judgement.” Then, when they moved in they were dissatisfied and want to know who authorised the system performance specifications! They did! With ST&M we know client expectations and can fulfill them.’

IMPROVING THE PROCESS — BOTH THE CHALLENGES AND REWARDS ARE SIGNIFICANT

Facility management defined

The United States Library of Congress defines facility management as ‘The practice of coordinating the physical workplace with the people and the work of the organisation; it integrates the principles of business administration, architecture and the behavioral sciences.’³⁵ Facility management is about achieving management goals while working within practical limitations, such as capital budgets. It is a balancing act, as there is never enough capital to support all the management initiatives — but that is where the challenge lies.

Best practices

Successfully improving the capital budgeting process begins with executive leadership and an enterprise-wide initiative to re-engineer planning and budgeting into an ongoing process that links strategy with vision. The challenges are many as there are few best practices that translate exactly from company to company. Best practices for capital budgeting listed in this paper are intended as a partial list of initiatives that can be undertaken at the business unit level through the facility management, real estate, engineering or finance functions. Companies that succeed in this area need endless patience — the improvement process can take three years or more. Protracted communication with employees and investment in new planning tools are also needed in order to succeed.³⁶ The impact on shareholder value, however, can be enormous, as Fujitsu firmly believes that its 30 per cent annual growth since undertaking planning and budgeting re-engineering is a testimony to the success of the effort.³⁷

Getting started

‘Until a functional, continuous capital planning system is in place, any improvement efforts, performance measurement and so on will only produce marginal results. Improvement starts with a planning and budgeting system that supports the organisation. Once this is in place other improvement activities can be undertaken’, says Dave Cotts. Getting started on an enterprise-wide improvement process requires the right executive sponsor and widespread support, because many areas of the enterprise are involved.

Process improvement guiding principles

A PROCESS IMPROVEMENT WORKPLAN

There is no magic formula for improving professional service processes; however, the following guiding principles³⁸ outline the work ahead:

- *Define the task:* What is the goal? What are you trying to accomplish? Start with an audit of current practices to pinpoint deficiencies and opportunities for improvement. Then target the areas for improvement that most likely will help to achieve goals.
- *Concentrate work:* Improvement projects need people resources, either in-house or consultants.
- *Define performance:* There are few facility planning benchmarks,

and each enterprise can use the improvement process to define measures that will contribute to the success of the enterprise

- *Form a management/worker partnership:* Break down the barriers between corporate staff and executives and between departments. Ask the people involved how to improve.
- *Continuous learning must accompany improvements:* Is there a systematic process like the Army's 'Lessons Learned' programme to capture and retain knowledge?

Manufacturing firms' utilities

Writing-off property that has been removed from a site and removing it from the tax rolls is a logical first project, especially for manufacturing organisations or those with many widely dispersed, small facilities (such as utility companies). Better utilisation of existing assets, through universal planning and improved management of the real estate portfolio can help delay new capital expenditures and generate enthusiasm throughout the organisation. Decreasing time to market for new products by decreasing project cycle time has the potential for the greatest financial rewards in many sectors of the economy. Extremely large organisations can reap significant benefits from a Corporate Lessons Learned programme, because the ratio of programme cost to payback can be significant. The toughest challenge for any enterprise will be successfully to roll out new budgeting and planning software and actually improve performance, because even with new software, the entire system is only as good as its weakest performer.

Large organisations

Budgeting and planning software

Improving the capital budgeting process to create shareholder value has always been an elusive goal for many organisations, because 'no one owns the process', and the budget is always changing. Most organisations have focused improvement initiatives on activities such as sale leasebacks, synthetic leases and cost segregation studies that are firmly in the realm of the finance function. Opportunities for significant improvement can be found in the various tactics listed in this paper as well as an enterprise-wide initiative to improve the planning and budgeting process (including capital planning and budgeting). Hard construction-cost avoidances of 2–5 per cent with Design-Build and net present value tax benefits of 8–12 per cent with TAD are significant, but they are actually less important than time to market for many corporations. The tactics outlined in this paper can help enterprises to get more benefit per capital dollar spent and more closely match facility expenditures with true organisational need. Because real estate assets closely support business processes, look for an ongoing trend for improvement in this area and numerous opportunities to implement tactics that are briefly covered in this paper.

Hard cost avoidances Tax benefits

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