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Raising the Bar: Enhancing the Strategic Role of Facilities Management

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Raising the Bar: Enhancing the Strategic Role of Facilities Management

Report for Royal Institution of Chartered Surveyors

the mark of property professionalism worldwide

A report for Royal Institution of Chartered Surveyors

Occupiers' Journal Limited

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Executive Summary

There have been many assertions, over the years by many commentators, that Facilities Management (FM) should be "more strategic". We now have robust evidence that it can – and more importantly, for a high-performing organisation, ***should*** – be a strategic management discipline.

This report considers what "being strategic" really means; and it also takes a hard look at the current "state of the practice" of FM. The research behind the report draws on a survey completed by almost 400 FM professionals across six continents. Our insights and understanding were enriched by direct personal conversations with almost three dozen senior FM and Corporate Real Estate (CRE) executives, as well as a small number of thought leaders from academia and several of the major international professional associations focused on CRE and FM.

It is also clear to us that, to be effective and to serve an organisation's real estate and business needs, FM leaders must work on a number of multi-disciplinary relationships within their organisation. They must focus on gaining the buy-in needed to provide coordinated workforce support from all the infrastructure functions. The overarching goal must be achieve a deep common understanding of the strategic imperatives of the organisation as a whole.

Some FM leaders may "Raise the Bar" by managing multiple infrastructure functions, in shared enterprise support teams (or similar). In doing so, their role becomes more strategic and their career paths will see new doors opening if they can more clearly articulate and communicate this broadened scope across their organisation.

This study was designed to review the state of the practice of the facilities profession in 2012, to identify critical FM challenges, and to focus in particular on the relationships between FM and other key functional areas such as corporate strategy, business unit leadership, CRE, Finance, HR, and IT.

What stands in the way of "Raising The Bar"?

Firstly, the Head of FM is often poorly led from above. Not enough thought goes into considering an organisation's business strategy and how it translates into tangible targets and actions for FM.

We rarely ever see organisations map out a cause-and-effect chain to guide FM strategy, which is why heads of FM are so often told to cut (or freeze) their budgets without reference to the causal chain of consequences to the workforce, to work processes and productivity, and to the bottom line itself.

Without understanding the consequences of these budget cuts, FM has become a commodity rather than a professional skill in many organisations, to be procured at lowest cost. Worse still, the FM industry does not yet have the sophistication to be able to analyse and report on the consequences of lowered standards and reduced (or lower-cost) resources.

It could be said that the FM industry knows the cost of everything, but the business value of little. This is a recipe for continuously lowering the bar rather than raising it.

What has brought about this unfortunate reality?

Executives and Heads of FM, together, are not asking the right questions. They should be asking how the facilities function can strengthen the company's strategic positioning with customers, with employees (and prospective employees), and with the communities where they are located or want to do business.

Operational strategy is not an oxymoron: operations, including facilities, can clearly help an organisation to be competitive in the marketplace. However, **the key idea is *differentiation***. In desperate times, cost-cutting, with minimal reflection of the consequences, may be necessary. However, in most cases, an effective operational strategy must be fact-based and support differentiation – it is rarely enough just to have lower-cost facilities than your competition.

What are the questions that must be asked? Those that relate to *competitive advantage*:

- How well does your facilities/workplace strategy sit within your business strategy?
- Is FM aligned with the requirements of your business units, and in the right locations??
- Do your facilities support your talent recruiting and management strategies?
- Are the workplace designs consistent with the business's technology needs and strategy?

And, of course:

- Does the FM cost structure support the company's financial strategy and cash flow requirements?

For individual FM leaders, there are several additional, more personal questions:

- Do I have a deep understanding of my business's basic strategy and sources of competitive advantage?
- Am I paying attention to the right measures of FM performance and its impact on the business?
- Do I have effective personal relationships with my functional peers and with the senior business leaders in my company?
- Have I delegated my group's operational responsibilities far enough down, or out to service providers, so that I can work with my direct reports to focus our attention on enhancing the business's achievement of its strategic goals?

These questions cannot be answered alone; they require a multi-disciplinary, cross-organisation approach. Our research shows that, no matter where FM is situated within the larger organisation, it is embedded within a complex web of relationships. Each has the potential for strategic significance; and each also presents particular challenges to FM professionals. There are six critical gaps that we set out to address when we designed the study.

We focused on (i) the Head of FM/Head of Workplace as a generic label for the senior manager who leads the facilities or workplace function within the organisation, and (ii) the organisation as experienced from that position.

What has become clear is that the in-house occupier (or 'end-user') Head of Facilities is at the centre of a web of relationships with the Executive, with strategic business units, as well as with functions such as IT, HR, RE and, usually today, also service providers.

It is our focus on the critical gaps within this web that influenced and guided our design of the current study. Our research focused on the following broad questions:

- How is FM currently organised and governed?
- What are the most common organisational structures and reporting relationships for FM?
- How well are FM and workplace strategies aligned with financial strategies, with CRE, with functional peers and the business as a whole?
- How is the FM function measured and managed?
- What issues and challenges are FM managers facing in 2012?
- How strategic is the FM function in 2012? What are the barriers, if any, that prevent FM from operating at a more strategic level?

The study was conducted by reviewing existing literature, interviewing senior facilities practitioners and thought leaders, and carrying out a wider survey that captured basic data about performance measurement and management, the FM supply chain, and perceptions of FM from both inside and outside the profession.

The global FM survey received responses from over 40 different countries. As might be expected, we have less data from China, Japan, India, Africa and Latin America, and we intend to look at these markets in more detail with our local partners, as further research. The survey revealed that:

1. Facilities are increasingly being recognised as a strategic resource;
2. However, FM has had mixed success achieving strategic alignment with other elements of the business;
3. Large, global organisations face dramatically different challenges than smaller, more local businesses – and they manage their facilities very differently;
4. Financial metrics and cost control continue to dominate FM;
5. Heads of facilities are still buried in day-to-day operational concerns; and
6. FM career paths are undergoing significant change, and the FM profession faces a potentially serious future talent shortage.

Facilities is increasingly being recognized as a strategic resource

There are dramatic differences across organisations in how the FM function is operated, where it reports, how its efforts are measured and rewarded, and which functions are outsourced. However, many organisations today are beginning to treat facilities as a strategic resource, and FM as a strategic function – in some instances even elevating FM to a senior executive role, reporting to the Chief Operating Officer (or equivalent).

Many of the organisations we know include facilities and workplace issues in their executive committee and business planning discussions; some address those issues at the Board level as well. Most of them measure the impact of facilities on workforce productivity and business performance; and some view the quality of their facilities as an important contributor to the corporate brand, and in attracting and retaining talent.

It is very clear that a majority of facilities professionals agree with our opening position, being that the FM function should have a significant strategic impact. Over 75% of the survey respondents believe Facilities is strategic, today.

However, our interviews and survey data also suggest that there is a serious gap between beliefs and actions in this area. **Organisations that actually manage their facilities as a strategic resource are still in a distinct minority. Most Heads of FM still spend well over half their time on day-to-day operational activities. That is true across *all geographies and industries*, and for *both large and small enterprises***.

FM has had mixed success achieving strategic alignment with other elements of the business

In general, facilities organisations believe they are relatively well-aligned with finance, with business units, and with the overall corporate strategy and vision. They are also, as we would expect, reasonably close to corporate real estate groups. However, ***only about half consider themselves well-aligned with their peers in IT, and just over 40% believe they are in alignment with HR and other central services***. With the continued increase of mobile or 'agile' working, better alignment with peers in IT and HR is becoming vital to delivering integrated support for an organisation's workers 'on the move'. FM cannot deliver an 'agile workplace' without supportive and aligned IT and HR policy and operations.

Large, global organisations face dramatically different challenges than smaller, more local businesses – and they manage their facilities very differently

While some of these differences relate simply to scale of operations, it is worth remembering that ultimately the servicing of facilities is a very local business; each building is located in a specific community within a specific geographic region. It may be possible to oversee the management of a facility from a distance, but it is impossible to clean or maintain a building remotely.

More importantly, when an organisation operates in many different countries it has to cope with the varying real estate, construction, and operational practices – including different legal, regulatory, and cultural contexts. This observation may seem obvious and unsurprising, yet it is important to recognise that the difference between smaller one-country businesses and global operations is not simply related to scale; there are major increases in complexity as a business expands internationally.

Financial metrics and cost control continue to dominate FM

Misalignment among corporate infrastructure groups is often caused by the imposition of a narrow set of performance metrics. Almost 80% of facilities groups are measured first on performance against budget. Financial results clearly dominate management thinking.

It appears that in many organisations it almost does not matter if the FM group is helping the workforce be more productive, or helping attract and retain staff, or reducing environmental costs. If costs have not been driven to an absolute minimum, nothing else really appears to matter.

The challenges of reducing costs and budgets were by far the most important strategic challenge identified by (and most frequently mentioned by) both the survey respondents and the FM executives interviewed. Far from 'Raising The Bar', this almost exclusive focus on expenses has relegated facilities to 'commodity' status, to be purchased at lowest cost.

Heads of facilities are still buried in day-to-day operational concerns

In spite of the widespread belief that facilities is already strategic, the fact is that ***the average Head of Facilities spends over 50% of his/her workday dealing with day-to-day operations issues. Less than one day a week is devoted to strategy and planning***.

There is no simple way for the Head of Facilities to avoid dealing with day-to-day operations. Building operations are highly visible to everyone who is on-site, including the CEO and other senior executives. When something goes wrong the issue has to be resolved before he or she can get back to being “strategic”.

We offer some broad guidelines for getting out of this operational trap, but we also know it is far easier to talk about it than to achieve it.

FM career paths are undergoing significant change, and the FM profession faces a potentially serious future talent shortage

FM is clearly becoming a more recognized profession, with a more strategic role to play in business and workforce strategy. However, a core component of FM’s evolving maturity is the need for senior FM professionals to develop multi-disciplinary skills that go well beyond building engineering and maintenance, lease negotiations, space planning, and building safety/security.

It is clear from our research that the critical skills needed for future FM leaders focus primarily around collaboration, interpersonal relationships, delegation, strategy formulation and implementation, and managing service providers.

Yet in 2012 there are unfortunately few FM-oriented academic programs at either the university or the executive education level that even recognise these changing skill requirements, let alone prepare their students for the much more complex world they face moving forward.[1]

To compound the issue, as more and more organisations outsource core FM functions, the career paths for FM professionals within end-user occupiers are becoming increasingly scarce, and more difficult to navigate.

However, we believe the future for FM is bright, as the profession becomes more critical to organisational strategy and effectiveness. However, this changing future is also creating a near-term shortage of the talent needed to move FM towards its legitimate role as a strategic resource.

1 A brief review of several academic programs validates this claim: for example, one Masters in Facilities Management program requires proficiency in the following basic areas, but makes absolutely no mention of the strategic and interpersonal skills we have identified: Energy Management for Buildings; Facilities Contract Management; Facilities Maintenance and Operation; Facilities Planning and Management; Financial Aspects of Facilities Management; Introduction to Facilities Engineering Systems; Management of Telecommunications Infrastructure; Project Management; Quality and Productivity in Industry and Technology; Supply Chain Logistics Operations in Facilities and Industry; Greening Organizations

Recommendations for Action

Think strategically

It may sound simplistic to suggest that people just think "strategically". However, thinking strategically means focusing on competitive advantage, as outlined at the beginning of this report. And when heads of facilities focus on helping their companies establish competitive advantage, they are paying attention to – and even helping shape – business strategy.

Thus, our **first recommendation for action is that heads of facilities learn how to think strategically**. That means developing a deep understanding of the business they are supporting, its customers, and its competitors. In addition, strategic thinking includes understanding how to develop financial models, how to build and analyse alternative future scenarios, how to see "over the horizon", and how to link causes and consequences in areas as diverse as HR, IT, Finance, Operations, and even Marketing and Procurement.

However, **the most important strategic mindset is understanding how and why customers make purchasing decisions**. Do they select the organisation's products and services because of cost, quality, or service? And how are those customer choices influenced by real estate and facilities strategies and day-to-day experiences? **When heads of FM can answer these questions, and translate them into action priorities for their staff, then they are thinking – and even acting – strategically**.

Act strategically

Strategic action begins with strategic thinking, but thinking is only the first step. When Heads of FM behave strategically they are spending more time on the future than on the present – and they are focusing their staff's attention on business issues.

A head of FM develops and applies measures of FM's impact not only on the bottom line (which of course can be very strategic), but also on performance outcomes like talent attraction and retention, staff productivity, the "Triple Bottom Line",[2] community recognition, and even broader metrics like brand recognition, market share, and net profit.

It may be difficult for some managers to visualize the linkages between FM and ultimate business performance because there are so many indirect influencing factors. Nevertheless, **when FM takes actions with business strategy in mind, it can indeed have a measurable business impact**.

Rebuild the FM organisation and its role in the business

The Head of FM must also take several basic, short-term actions that serve to free up his or her time to focus on the core strategic issues.

First among these is to develop a strong layer of operational management within the existing corporate FM organization. Recruit subordinates with strong FM and management experience; be willing to bring in strong managers even if their FM-specific experience is weak or non-existent. **The in-house (occupier) team in an outsourced FM model requires business and management competencies more than technical skills**.

Look for individuals with strong financial and measurement backgrounds; build management control and planning systems that monitor service levels, costs, and end-user satisfaction on a frequent and recurring basis. Above all, **insist that measurement systems focus on outcomes, not on FM processes as ends in themselves. An 'excellent' process that delivers the wrong outcomes is still of no use to the organisation**.

Second, focus the FM team on defining (and enforcing) policies and practices that define the role of FM in supporting the business. Make defining those policies an early priority, and socialize them actively with business clients and peers.

While we believe in outsourcing and making extensive use of service providers (see the next section), outsourcing is not a way to overcome or replace a weak FM management team. Indeed, it is important to strengthen the FM operational capability before turning the activities over to a service provider.

However, **the competencies needed for managing an outsourced service are different from those needed to manage FM operations. Strategy, policy and performance management become more important than 'operations management' or FM technical skills**.

Finally, Heads of FM (and their direct reports) should strive to spend at least 50% of their time working with their peers in front-line business units, and in the other infrastructure functions. Focus first on FM's "customers", understanding their needs, their current work patterns, and their frustrations, even before attempting to anticipate their future requirements.

2 The "Triple Bottom Line" was first defined in 1994 by John Elkington, a British consultant. It refers to measuring organizational performance along three complementary dimensions: "people, profit, and planet." See "Triple Bottom Line," *The Economist*, November 17, 2009, for a more complete discussion of this important concept.

Outsource operational activities

As will become clear in the main body of this report, we believe that the pathway to making FM more strategic is to outsource as much of the operational, routine work to third-party service providers as possible. Doing so will free up in-house resources who can then spend less time "fire-fighting" and more time planning and thinking longer term.

Outsourcing many FM operational activities frees Heads of FM and their immediate staff to focus much more on long-term planning and strategic challenges (both FM-related and business-focused). Among the organisations we interviewed, those that were clearly operating more strategically (and were recognized as a strategic resource by their senior business executives) had outsourced far more of their operational activities than the organisations in which FM was struggling to get resources and recognition.

We cannot stress this recommendation enough. The FM service provider industry has matured extensively in the last several years, and there are many world-class FM professionals now building their careers within those service providers. Because of the absolute necessity of defining performance commitments and pricing them into outsourcing contracts, the service providers have learned to measure and manage their services, and to deliver on their commitments – often at a level of competence in excess of what is normally found inside end-user occupier organisations

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Teach the business how to ask for FM support

We also believe one of the most critical activities for a head of FM is to educate his/her senior business executives and functional colleagues about how to work with FM. That is, FM is most successful when business leaders know how to define their FM requirements, how to establish FM performance goals beyond simple financial measures, how to assess FM outcomes, and how to plan ahead to ensure that their facilities do in fact help create strategic advantage.

Effective heads of FM do not buffer their business counterparts from the details of FM; they actually do just the opposite. They take every opportunity to help their clients understand the strategic role of facilities, and they ensure that facilities and workplace design issues are part of every strategic conversation.

This is also where 'true' strategic benchmarking is of immense value, in helping the Head of FM to understand where other organisations are in their FM development, and to be able to communicate this understanding to his/her customers in the business.

Clearly this is not the "how much does your FM cost?" discussion that we have seen over the past couple of decades. Rather, it includes a more mature understanding of strategy, policy, CRM, organisation structure, workplace standards and service expectations – across a range of 'peer group' organisations. This form of 'benchmarking' has also been termed a "fact-based strategic position assessment"[3], which more accurately describes what it actually accomplishes in practice.

3 McTaggart *et al., The Value Imperative: managing for superior shareholder returns*, The Free Press, 1994. pp. 112-113

The subtitle of this report, "Enhancing the Strategic Role of Facilities Management", calls for an explanation, particularly the term *strategic*. "*Strategic*" is certainly an over-used word, and we know that no one can make something "strategic" simply by inserting the adjective.

1.1 Balancing strategic and operational management priorities

In the current climate of business, every part of an organisation must think and act strategically to squeeze out every possible competitive advantage. It is not good enough to be operationally efficient. Every part of the organisation *must be effective* in contributing, wherever possible, to the leadership strategies. We believe that imperative applies just as much to facilities management as it does to other functional responsibilities.

Facilities Management: operational efficiency is expected – strategic advantage is needed

This analysis leads to a conclusion, formed by numerous discussions with senior facilities and business executives, that FM could and should be more strategic.

***"Strategic"* means helping the business achieve competitive advantage by aligning real estate (space) and facilities services more closely with business imperatives, operational capabilities, and organisational performance.**

In many organisations, FM has not been seen as making a meaningful difference to operational effectiveness or the bottom line of the business, unless the business is looking to cut costs, in which case FM (and, we believe, the entire business) often suffers.

For example,

The administrative back-office of a financial services company was situated in a modern business park. It held around 3,000 people, split across three buildings. One of the buildings had an air-conditioning system that had been repaired regularly, but needed large-scale overhaul or replacement. The repair was expected to cost £200,000 (USD $300k), but did not make it through the planned maintenance budget cycle. The on-site facility manager warned the business unit that it was almost inevitable that the system would break down again if run at full capacity.

Some months later, in a particularly hot period during the summer, the south-facing central building overheated. The air-conditioning failed, and the blinds (where they worked at all) did little to shield the workers in the energy-trading call-centre.

On day one the employees struggled through. On day two, they had less patience. A few walked out, and a few more followed, until the floor was at 'skeleton-staffing' levels at best. Call waiting times rose dramatically, complaints began coming in, and the company lost business as a result.

On the positive side, the business unit manager and the Head of FM were able to show the business data about the affected days, demonstrate lost productivity, and estimate the reduction in earnings as a result (not to mention reputational damage). The £200,000 replacement would have paid for itself several times over, in just the 2-3 days affected by the failure.

We are convinced that FM can, and should, be a strategic management discipline.

In fact, we believe that some FM leaders could "Raise the Bar" by leading many other infrastructure functions like end-user computing, travel, employee health and wellbeing, in shared enterprise support teams that bring together all the activities and processes that create the employee experience and foster productivity. If FM can more clearly articulate and communicate this broadened scope across the organisation it can play a more central and a more strategic role in enhancing an organisation's competitive advantage.

Strategic FM is about always asking, "How can we help to gain competitive advantage?"

Anecdotal evidence from quite a number of organisations suggests that the Head of Facilities is poorly led from above. Not enough thought goes into considering the organisation's business strategy and translating that into something tangible for FM to deliver. It is very rare to find any serious analysis of input – output from FM as a function of the wider organisation.

We rarely, if ever, see a cause-and-effect chain mapped out to influence FM strategy, which is why the Heads of FM are so often told to cut (or freeze) their budgets without reference to the causal chain of consequences that flows from those budget cuts.

Areas where competitive advantage can be gained from FM, but are often placed in the too-difficult-to-quantify box, include the following:

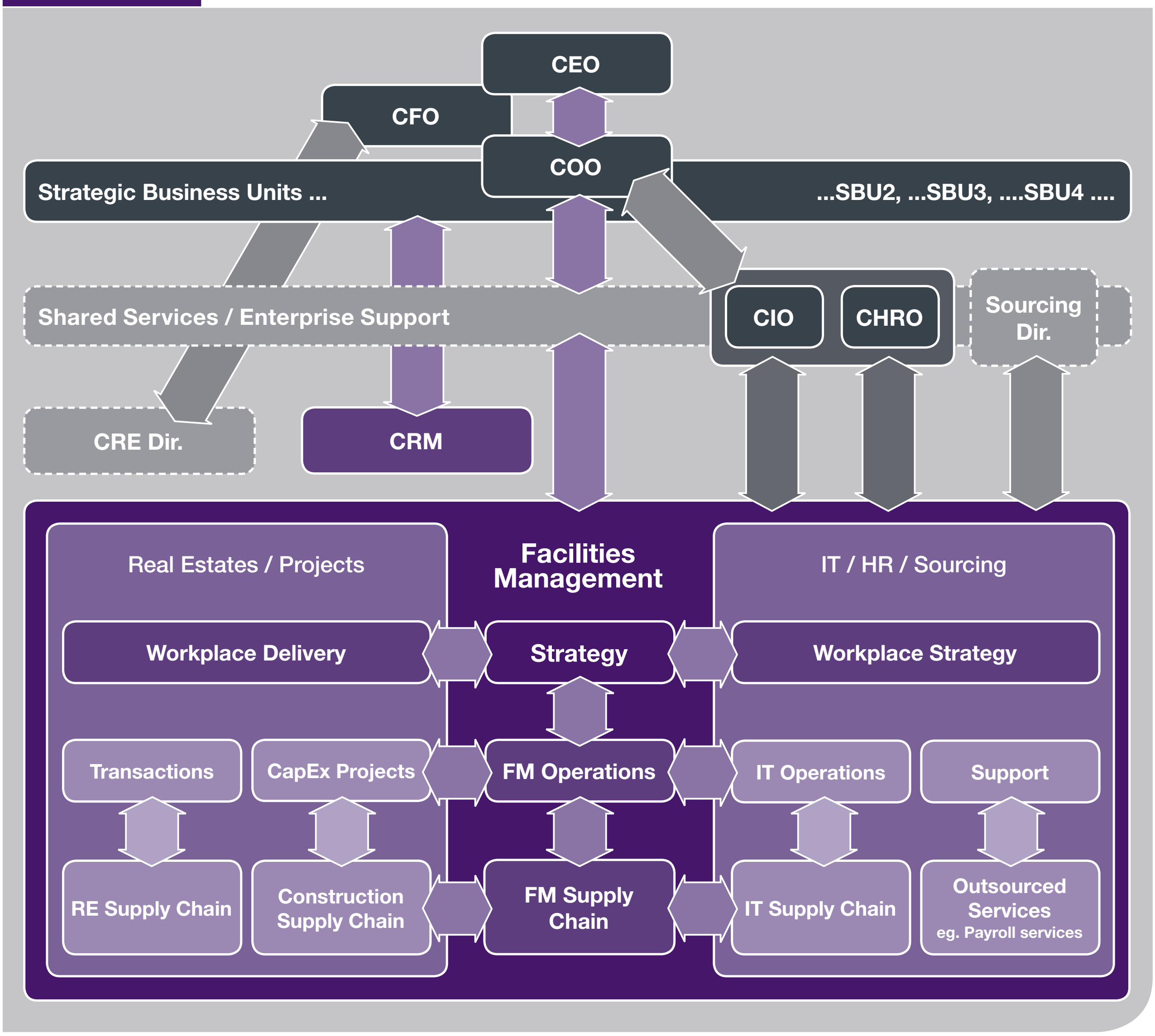
- Better quality and variety of work spaces, leading to greater worker satisfaction and productivity, and to a constructive sustainability agenda for FM ;
- Improved air quality and indoor environment, again leading to improved productivity;
- Expenditures on workplaces that people like, with a view to attracting (and retaining) talent;
- Expenditures on external factors, maintenance, or better buildings, linked to maintaining market image and retaining real estate asset value; and
- A focus on health and wellness to reduce sickness and absenteeism, and to be good corporate citizens generally.

The question remains, however, how actual FM organisations and the businesses they support are addressing (or not) these opportunities.

1.2 FM operates within a complex web of relationships

In the course of this study, we have examined not only the mission and charter of the FM function, but also the critical relationships with other functions and with outside service providers that every facilities group must develop and nurture (Figure One):

Figure 1 **FM's Critical Relationships**



These relationships and the challenges they create for facilities managers are discussed in more detail on the next page.

1.3 Is "Operational Strategy" an Oxymoron?

Does it make sense to think of FM as a strategic resource? Is "operational strategy" an oxymoron?[4]

To have a strategic impact, an activity or capability must differentiate the business from its competitors. It is worth noting that in some industries, retailing comes immediately to mind, the facilities are absolutely central to brand strategy and to generating business revenue.

In a 1996 *Harvard Business Review* article called "What is Strategy?", Harvard Professor Michael Porter identified three basic principles that define strategic positioning:

1. "Strategy is the creation of a unique and valuable position, involving a different set of activities [different from what competitors are doing]. . . .
2. Strategy requires you to make trade-offs in competing – to choose what not to do. . . .
3. Strategy involves creating "fit" among a company's activities." [emphasis added][5]

As Porter further describes it:

"Strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company. It means performing different activities from rivals, or performing similar activities in different ways." (also p. 1)

The best example of how operational strategy works is the way Southwest Airlines designed and implemented its entire business model to support its basic strategy of being a short-haul, low-cost, point-to-point airline connecting mid-size cities (drawn from the Porter article).

Although that strategy has evolved in many ways since 1996, Southwest remains singularly successful in 2012, largely because it has held on to the core components of its operational business system:

- limited passenger service
- frequent, reliable departures;
- high aircraft utilization;
- low ticket prices;
- use of many second-tier airports
- no seat assignments;
- no formal meals;
- 15-minute gate turnarounds;
- limited use of travel agents;
- no connections with other airlines;
- a standardized fleet of Boeing 737 aircraft (meaning simplified training for pilots and maintenance staff);
- high level of employee stock ownership
- flexible union contracts

Just think about it; those approaches are internally consistent and mutually reinforcing, and all are necessary to deliver on Southwest's promise of low-cost, reliable service. Even though many full-cost global airlines have attempted to compete with, and to emulate, Southwest, only a very few other airlines have come close to matching Southwest's system, or its success (and those, like Easyjet in Europe, and Jetstar and Virgin Blue in Australia, are outside the United States and therefore not direct competitors with Southwest).

Note especially the activities that Southwest has chosen not to engage in: offering reserved seats; participating in global reservation systems that allow interconnection among competing airlines; flying planes other than 737's; offering full meals for sale on flights; and implementing a full "hub-and-spoke" route system.

So the answer to the question "Is operational strategy an oxymoron?" is clearly a resounding "No." Operations, including facilities, can clearly help an organisation be competitive in the marketplace. But the key idea is differentiation. It is not enough just to have lower-cost facilities than your competition.

The questions that must be asked relate to how well your facilities/workplace strategy contributes to your business strategy. Is facilities management aligned with the requirements of your business units, in the locations where you need to be? Do your facilities support your talent recruiting and management strategies? Are the workplace designs consistent with the business's technology needs and strategy? Does the facilities cost structure support the company's financial strategy and cash flow requirements?

Perhaps even more importantly, facilities managers have to ask themselves this very basic question:

What is the facilities function doing to strengthen the company's strategic positioning with customers, with employees (and prospective employees), and with the communities where we are located or want to do business?

Indeed, this is a basic strategic question that facilities managers and thought leaders have been asking for many years. In truth, FM is a relatively young profession; most of the professional associations (IFMA, Global FM, etc.) that attract and serve facilities professionals are less than thirty years old, (or, like RICS, have set up FM sections within the last few years).

4 Oxymoron (from the Greek ὀξύμωρον, "sharp dull"): a figure of speech that is self-contradictory. Common examples include "jumbo shrimp," "living dead," and "open secret."]
5 Porter, Michael. "What is Strategy?" *Harvard Business Review*, Nov-Dec. 1996 (reprint #96608), p.1

1.4 The IT example: From back room to board room

Strategic business success is measured in many different ways: market share; customer satisfaction; revenue and profit growth; employee attraction and retention; and public, or brand, reputation.

To understand how these factors can affect a functional area, it is worth recalling briefly how the IT function (and technology itself) in many organisations exploded out of the back room and landed in the board room between about 1975 and 2000. Let's consider how IT impacted just three of these strategic business metrics, and how those changes dragged senior IT executives into the executive suite.

Once upon a time information technology was essentially an accounting resource; its early use in business was to keep track of financial expenditures and, occasionally, to record product inventories and sales. Those were clearly "back office" bookkeeping activities. It wasn't until technology was applied to core business processes like order entry, production scheduling, graphic design, and financial asset management that it began to have a truly significant impact on cost and capability.

Now, in 2012, technology is the primary interface between many businesses and their customers; the worldwide web has become the "storefront" and the brand, the checkout line, the cash register, and the customer service arm of most retail businesses. And the cost of those activities and processes is just a fraction of what it used to be.

But the impact of technology on operating costs isn't just significant; it has been revolutionary. Just look at how companies like Amazon, Intuit, eBay, Visa International, Google, Facebook, Ford, and Apple have completely re-invented business models in industries as diverse as publishing, banking, music, home-based businesses, retail sales, and even manufacturing.

Three ways that IT's role has been transformed are noteworthy:

1. attracting and retaining talent;
2. enabling innovation and creativity; and
3. becoming strategic

Attracting and Retaining Talent

Technology also has a deep and profound impact on talent attraction/retention. While basics like competitive salaries, benefits, and an organization's "brand" do make a difference in recruiting, they have become little more than table stakes. What most job seekers are looking for today is a company that will equip them with modern, efficient mobile devices, hook them up the Internet and the internal corporate databases, and enable them to get their work done any time, any place.

Any executive team concerned about attracting and retaining the best talent (no matter where that talent is located) has to include its technology capabilities in its strategic thinking.

Enabling Creativity and Innovation

Certainly creativity and innovation have become strategic imperatives for any business competing on the global stage in 2012. Success today is driven by new products that are designed and produced more quickly than the competition, and marketed with distinctive global campaigns (think of Apple, Cisco Systems, Nike, Facebook, and Google, among many other success stories).

Once again IT makes that possible. Technology tools give the workforce the power to find and create information – and to collaborate with peers all over the world – far more cheaply, more effectively, and more quickly than ever before.

Becoming Strategic

As organizations have learned to apply technology to these (and other) strategic imperatives, IT organisations and their senior leaders (the CIO, or Chief Information Officer, and his/her staff) have become central to conversations about strategy in the C-Suite and at the Board of Directors level.

Did CIO's have to push their way into the Board Room? Not really. In most instances they were invited in because senior business executives realized what a strategic resource technology was.

But it wasn't just a matter of opening the Boardroom door and walking in. IT executives, and their vendors/service providers, spent many years, and many financial resources, educating business executives – not only about what IT could do for the business, but about what kind of organizational resources and skills it takes to create reliable, high-quality technology platforms.

And remember that, while IT had been contributing to improved business performance all along, for many years the productivity gains were relatively minor and incremental. It wasn't until Michael Hammer's classic 1990 *Harvard Business Review* article "Reengineering Work: Don't Automate, Obliterate"[6] that organizations finally began using technology not just to improve the way they did things, but to revolutionize their business processes and actually to do completely different things.

We once worked with a life insurance company to reinvent the way it sold policies and processed policy applications. When we started examining the steps in a policy application we uncovered a paper-intensive process that typically took about 34 days from application to approval.

When the team was finished with its "obliteration" of current practice, the entire process took less than 48 hours. That kind of order-of-magnitude reinvention wasn't simple performance improvement; it revolutionized the company's standing in its industry.

Without belabouring the point, IT did not become strategic by fiat, or by simply claiming that it could make a difference to the business. IT leaders earned their place at the table by developing high-quality enterprise systems, by innovating beyond their competitors, by understanding how to use IT to create strategic advantage, and by ultimately making a difference in the business's bottom-line performance and competitive positioning.

That, we believe, is exactly the challenge facing FM. It's not enough to believe in your strategic value. Heads of FM build credibility and influence by educating their peers and senior business executives, and then by demonstrating how FM can directly impact the activities, processes, and people in the organisation to create new strategic value for customers.

Admittedly, FM may never have the incredible impact that IT has had on the economy, but it can play a much greater role in achieving competitive advantage than most senior business executives understand today.

6 Michael Hammer, "Reengineering Work: Don't Automate, Obliterate. *Harvard Business Review*, July 1990.

1.5 The Web of FM Relationships – the 'six gaps' model

As suggested above, no matter where FM is situated within the larger organisation, we see it as being embedded within a complex web of relationships, each of which has the potential for strategic significance, and each of which presents particular challenges to FM professionals.

Figure 2 **Six Gaps for FM**

Gap#1 – Understanding the vision and strategy of the enterprise

Gap#2 – Understanding and translating the strategy of each SBU (Strategic Business Unit)

Gap#3 – Understanding and translating the CFO's financial strategy for the organisation

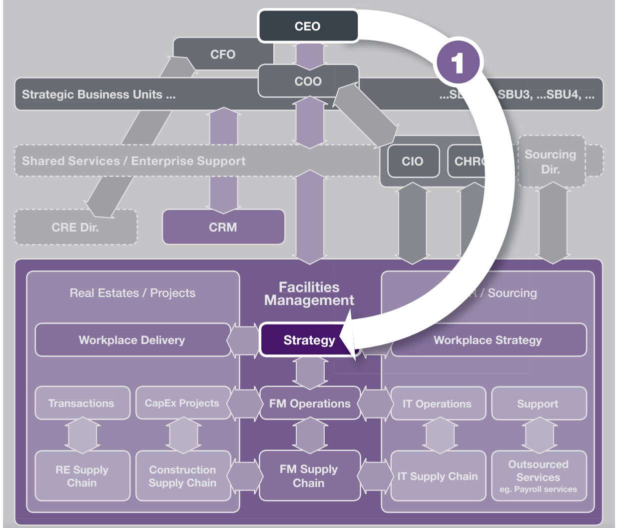
Gap#4 – Developing and implementing a workplace strategy, aligned with IT and HR

Gap#5 – Bridging the relationship between workplace strategy and delivery of projects

Gap#6 – Aligning the FM supply chain with FM strategy, and with the organisation as a whole

There are six critical gaps that we addressed as we designed the study and prepared this report. We focused on the "Head of Facilities" as a generic label for the senior executive who leads the facilities or workplace function within the organisation and on the organisation as experienced from that position.

We now examine each of these gaps in detail.



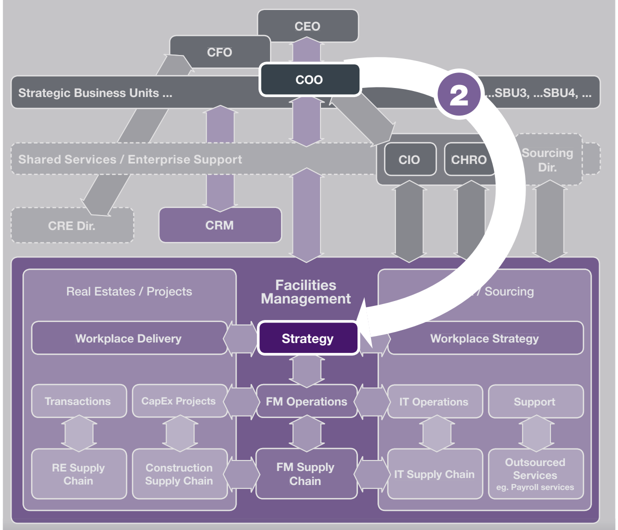
Gap#1 – Understanding the vision and strategy of the enterprise

Gap#1 is the relationship between FM and the leadership team (i.e. CEO and/or COO). It is concerned with understanding the corporate strategy, and with aligning the workplace provisioning with that strategy.

Our research and combined experience gives us a very clear view that the most important gap is in understanding the broad vision and strategy of the organisation. For a Head of Workplace, understanding how a particular industry sector works, and how a specific organisation in that sector operates is of fundamental importance.

But how can this task be accomplished? How does the Head of FM get to understand the corporate vision and strategy? And how is that vision translated into the context of the workplace?

It seems that there is a major knowledge gap here. How do Heads of Facilities and new FM professionals go about acquiring this knowledge? **Gap#1 is about developing the tools to translate corporate strategy into workplace strategy.**



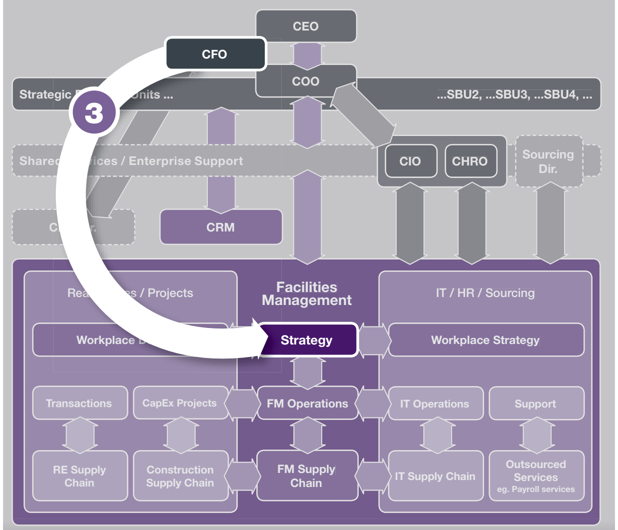
Gap#2 – Understanding and translating the strategy of each SBU (Strategic Business Unit)

Whereas Gap#1 is about understanding and translating the overall corporate strategy, Gap#2 involves understanding and translating the needs of each Strategic Business Unit (SBU). In fairly homogenous or simple organisations, this kind of translation may not always be necessary. But, in most large and complex organisations, there is not "one business," but actually several SBUs with varying strategies.

The Chief Operating Officer (COO), where such a role exists, is a vital ally in achieving this goal of alignment between FM and the SBU's. Part of the COO's role is to understand and support all parts of a complex organisation so that it can deliver its products and services. **Gap#2** is about FM forging constructive relationships with the COO and with each SBU he or she works with.

One key component of addressing **Gap#2** is to create and manage performance measurement between FM and each different SBU. The structure of performance measurement may be homogenous for the organisation as a whole (although it rarely is), but the actual key performance measures are often unique to each SBU.

Addressing Gap#2 then is about developing the tools to translate SBU strategy into workplace strategy.



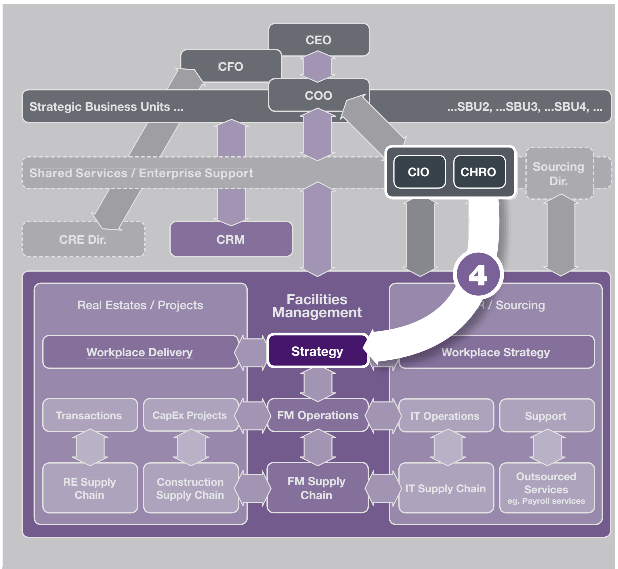
Gap#3 – Understanding and translating the CFO's financial strategy for the organisation

Gap#3 is specifically about understanding and translating financial strategies. The first two gaps certainly have financial implications, but there are also specific financial issues that require direct alignment with the Chief Financial Officer's (CFO) strategy.

FM leaders must also have close financial relationships with the CRE Director and team, particularly regarding total occupancy costs and understanding the balance between capital expenditures (capex) and basic operating expenditures (opex).

The challenge for the Head of Facilities is not only to work within the overall corporate guidelines but also to have benchmarks available to demonstrate proactively to the business executives (the "C-Suite") that all areas are being developed cost-effectively and with best practices. This is not only proactive management by the Head of Facilities, it can also be a useful defence against inappropriate cost-cutting.

Benchmarking is by its very nature an external-facing activity. **The focus for addressing Gap#3 must therefore largely be around developing globally-effective benchmarking practices (both quantitative and qualitative), and seeking out the best data-sets in specific global regions.**



Gap#4 – Developing and implementing a workplace strategy, aligned with IT and HR

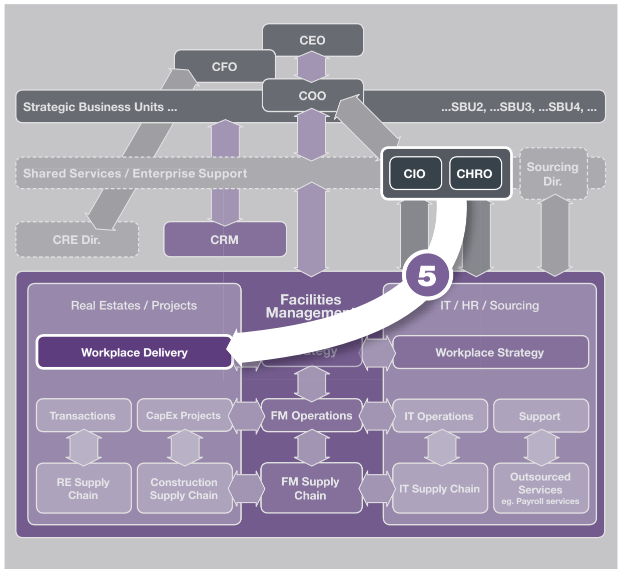
There is also a common gap in understanding among the real estate (RE), FM, IT, and HR functions in most organisations. **We have seen this gap in many situations, over many years; improvement has occurred, but there remains a long way to go, as the current study, described below, makes very clear**.

Workplace can be a focal point in the relationship between the RE, IT, and HR functions, and in the development of a comprehensive workplace strategy. The physical workplaces and facilities are vital to organisational performance; everyone needs a comfortable and productive place (or places) in which to work (including, increasingly, places not under the organisation's control, such as home offices, co-working operations, and other public spaces).

HR is becoming a vital infrastructure partner, creating the policies and conditions to support knowledge workers in their quest to become more mobile and flexible.

The IT infrastructure is also clearly essential, to facilitate ease of access to the tools that we need to work, including network access, WiFi and peripheral equipment. This mobility (or agile working) can be within and across an office, working in different settings to suit the task. Or it can be mobile working in a variety of locations, from home, to client locations, to working on the move.

Addressing Gap#4 is about building relationships between RE/FM, IT and HR, to create a workplace strategy. For the Head of Facilities, it is also about converting this workplace strategy into operational roles for FM staff.

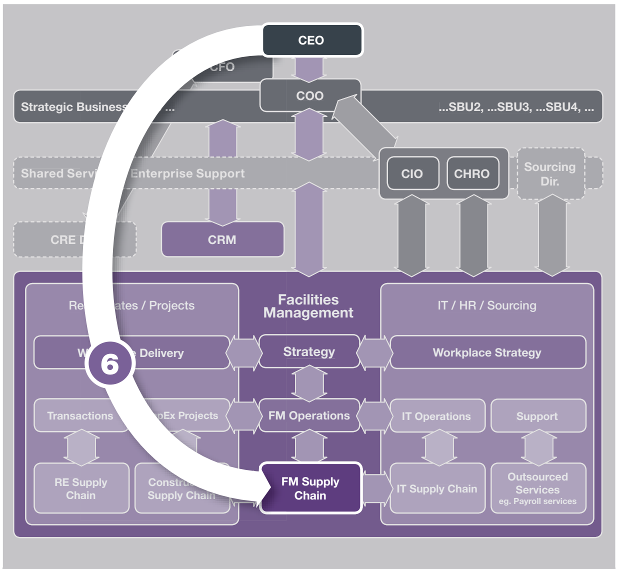


Gap#5 – Bridging the relationship between workplace strategy and delivery of projects

What we refer to as **Gap#5** is dependent on the work done to address **Gap#4**, because once there is a good understanding formed between FM, IT, and HR functions, this context must be communicated and shared with the teams responsible for procuring and delivering new space. This task is usually accomplished by a combination of RE and project teams, and the bridging between workplace strategy and workplace delivery by RE/Projects.

The Head of FM is always responsible for the existing portfolio of working environments and management of any new additions (or major changes) to this portfolio. So the Head of FM can act as the bridge between the workplace strategy team (including FM, IT, and HR), and the teams procuring and delivering new working environments. If not, new leases, spaces and projects (including fit-out and refurbishment) will most likely not support the workplace strategy that has been designed to support the needs of the business overall (**Gap#1**) and its SBUs (**Gap#2**).

If this happens, then workplace delivery is not aligned with workplace strategy, and the Head of FM is left with an enduring problem, which is usually more difficult to correct post-project. So, Gap#5 is about bridging the relationship between workplace strategy and design/delivery of projects. For the Head of FM, it is also about ensuring that tools are created that help transactions/project teams communicate workplace strategy concepts to designers and project managers.



Gap#6 – Aligning the FM supply chain with FM strategy, and with the organisation as a whole

Gap#6 receives a lot of attention in 2012, but in our view it is actually dependent on most of the Gaps #1-#5 described above. In a world increasingly dependent on service providers, the effective management of the FM supply chain is core for a workplace/facilities manager's position.

But the role of FM is clearly changing, for the reasons discussed above, as the working environment becomes less about the work *"place"* and more about a variety of work settings to support knowledge workers, both within and outside the traditional corporate-owned workplace. In the future, due to these changes, the FM supply chain will also change.

So, **Gap#6** is focused on alignment of the supply chain with corporate and the SBU strategies.

The Head of FM will already have a view on what is needed from the FM supply chain to provide services to the organisation. But the question remains: are we going to see more fundamental changes in the outsourced supply chain? How will those changes then affect the in-house FM function?

In the future we can envisage the FM supply chain merging with other outsourced activities. Construction and FM are common; combining corporate real estate (CRE) and FM is also becoming more common. Full "real estate outsourcing", in which a single service provider company takes ownership of the property portfolio and delivers it back to the organisation on a unit charge basis, is already practiced extensively by the UK public sector. It will be interesting to see the first integrated real estate, FM, and IT services outsourcing provider.

Bringing the model back together

When one breaks down a complex structure into its constituent parts, understands each relationship, and then brings the model back together, it does not seem so complex.

What is clear is that the in-house or end-user Head of Facilities is at the *centre of a web of relationships*, between the senior executives, SBUs, IT, HR, RE and, usually today, service providers as well.

It is this collection of critical gaps, within this highly interpersonal/inter-functional web of relationships, that has influenced and guided the design of this study.

2.0 The Study

The purpose of this study was threefold: to review the state of the practice of the facilities profession in 2012; to identify critical FM challenges; and to focus in particular on the relationships between FM and other key functional areas such as corporate strategy, business unit leadership, CRE, Finance, HR, and IT.

Our research focused on the following broad questions:

- How is FM currently organised and governed?
- What are the most common organisational structures and reporting relationships?
- How well are FM and workplace strategies aligned with the business, with financial strategies, with CRE, and with functional peers?
- How is the FM function measured and managed?
- What issues and challenges are FM managers facing in 2012?
- How strategic is the FM function in 2012? What are the barriers, if any, that prevent FM from operating at a more strategic level?

The study was conducted by reviewing existing literature, interviewing senior facilities practitioners and thought leaders, and carrying out a wider survey that captured basic data about performance measurement and management, the FM supply chain, and perceptions of FM from both inside and outside the profession. We set out to conduct the study on a global basis, and indeed almost half of the survey respondents were based outside the United States and the United Kingdom.

This study has produced a state-of-the-art understanding of FM in 2012. More importantly, however, it offers senior executives as well as facilities and workplace leaders practical guidelines for taking charge of their own, and their function's future.

We conducted focused interviews with close to three dozen senior facilities executives based in North America, the UK, Southeast Asia, and Australia. The online survey results described below draw on responses from well over 350 end-user facilities professionals based on six continents.

2.1 Study scope and objectives

The focus of this study is on the facilities function as a whole and its place within the larger business organisation. Particular attention was paid to how end-user occupiers are working with external service providers, and what effect the use of service providers is having on the strategic role and capabilities of FM.

Because of the unique global working-group structure of Occupiers Journal Limited and our Regional Partners, and the broad reach of RICS, the study collected and compared data from several of the key economic regions around the world, including (but not limited to) the following:

- Hong Kong
- Australia
- India
- Europe
- Africa and the Middle East
- Latin America
- United States

Research Questions

The survey and executive interviews addressed the following specific questions:

- How is FM currently organised and governed?
  - Does it matter where FM reports into within the organisation structure?
  - Are CRE and FM actually different? Or should they be managed as one function?
  - Is the FM Director more effective when not under the shadow of CRE?
- What are the most common organisational structures and reporting relationships?
  - Is one global FM team a reality?
  - Should the relationships among Head of FM, Operations Manager, and Supplier (Account Manager) vary in different parts of the world?
  - How can the Head of FM get away from day-to-day operations to attend to strategic business planning?
- What can be done to ensure that FM and workplace strategies are better aligned with the business, with financial strategies, with CRE, and with functional peers such as HR and IT?
- How is the FM function measured and performance-managed?
  - Is there, as is often perceived, an over-reliance on financial measurements?
  - How much clarity exists across definitions of client, key customers, and service users?
  - Is the Service Level Agreement (SLA) with each business unit actually a formal contract? What kind of governance is typically placed around the SLA?
- What other key issues and challenges are Heads of FM facing in 2012?
- How strategic is the FM function in 2012? What are the barriers, if any, that prevent FM from operating at a more strategic level?

2.2 Executive interviews

The questions listed above were put to about two dozen senior facilities executives and professionals in North America, the UK, and Australia in telephone interviews held between early March and late May, 2012.

Our interviews with senior CRE and facilities executives typically addressed all of these questions. The interviews each generally lasted about an hour; most of the interviews actually evolved into broad-ranging conversations about the current state of FM and the challenges that FM leaders are facing in 2012.

The executive interviews included heads of corporate real estate and/or facilities executives from a wide variety of industries:

- Financial services
- High-technology
- Software development
- Insurance
- The U.S. Federal Government
- Health care
- Pharmaceutical
- Public-sector utility (power, water, gas)

The interviews were conducted in confidence, and all interviewees were assured that they would not be quoted directly without their explicit permission. We believe their comments were candid, comprehensive, and offered freely. We deeply appreciate their interest and willingness to contribute their time and their insights to this project.

The detailed discussion of our findings below draws on those interviews, as well as our analysis of the survey data, our limited review of existing literature, and the 100+ years of combined experience across our global team. We are grateful for the interest and support expressed not only by the interviewees we spoke with formally, but by observations and comments from many prominent facilities and real estate executive who shared their views more informally via telephone conversations, email correspondence, and in-person conversations at national events like IFMA's Facility Fusion Conference (Chicago, April 2012) and the most recent Corenet Global Summits (San Diego, May 2012, and London, September 2012).

2.3 The survey

We also conducted an online survey that was promoted to facilities professionals on six continents. By the end of July 2012, over 375 individual end-user facilities professionals had completed the survey (an additional 120+ facilities consultants and service providers began the survey; however we eliminated their responses from most of the items because our goal was to focus on end-user "occupier" FM professionals).

However, we are also conducting extended conversations with service providers, and we fully intend to reflect their experience and perspectives in future reports on this topic.

Survey Demographics

The survey respondents included relatively senior FM and CRE professionals from over 40 different countries.

As Figure Three (below) indicates, over one-third of the FM professionals who completed the survey (36.5%) described themselves as the Head of Facilities and/or Corporate Real Estate in their organisations. An additional 29.2% identified their positions as Senior Director of Facilities, Senior Director of Real Estate, or Senior Workplace Strategist. The remaining 32.7% of the respondents described themselves as FM professionals with varying titles and roles.

However, as Figure Four indicates, approximately 38% of the people who voluntarily began the survey identified themselves as facilities consultants or facilities professionals employed by service providers in the FM/CRE industry. As noted above, we removed those responses from the rest of the analysis in order to include only the perspectives and experiences of end-user facilities leaders and professionals.

Figure 3 Which of these titles best describes your job?

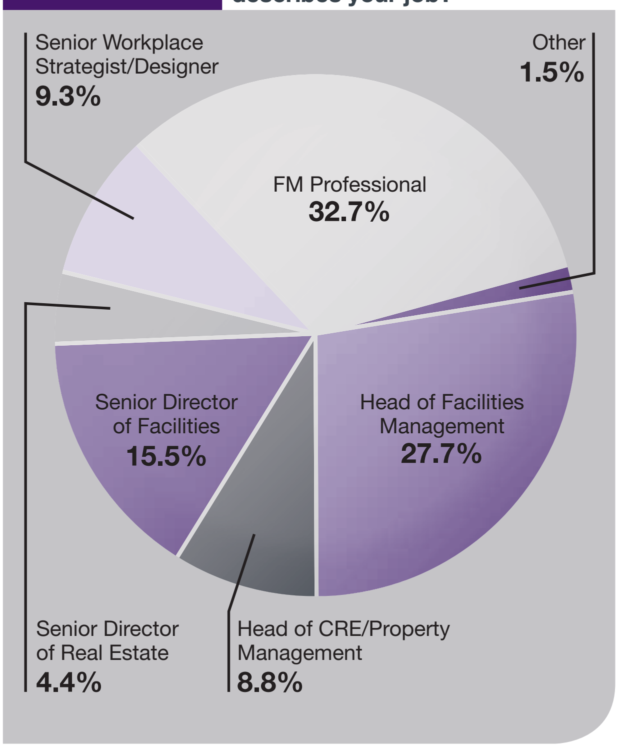


Figure 4 What type of organisation do you work for?

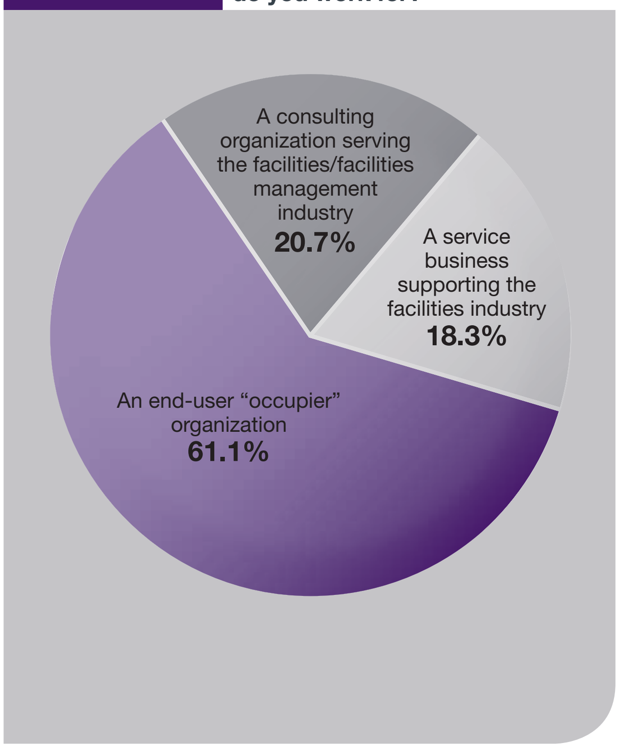


Figure 5 How many people work in your organisation?

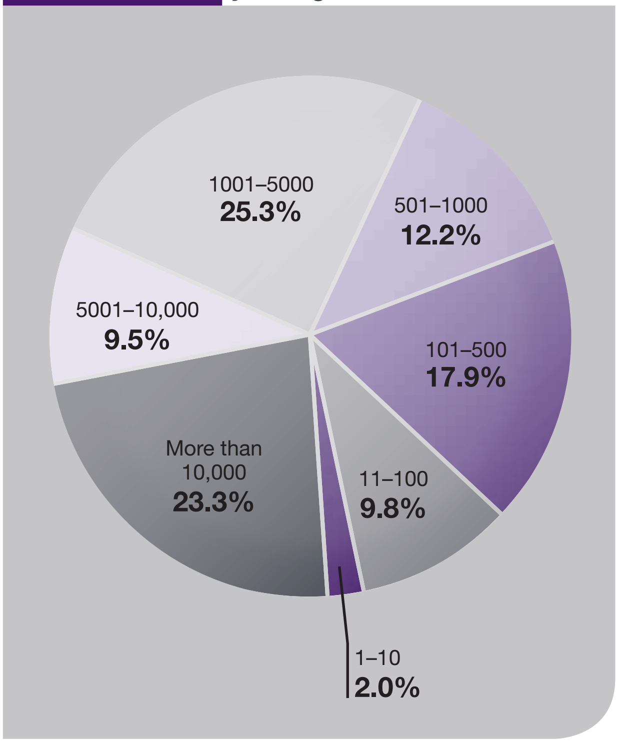


Figure 6 Respondents' Headquarters by Economic Region

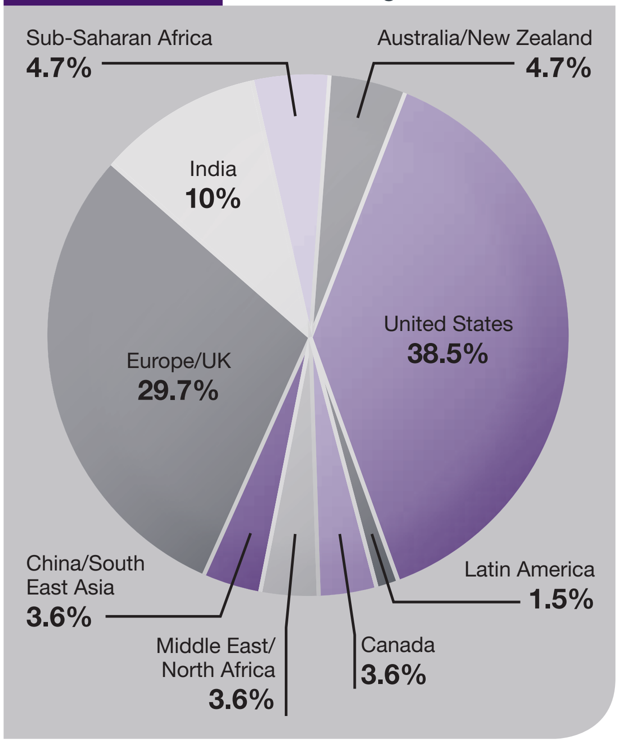
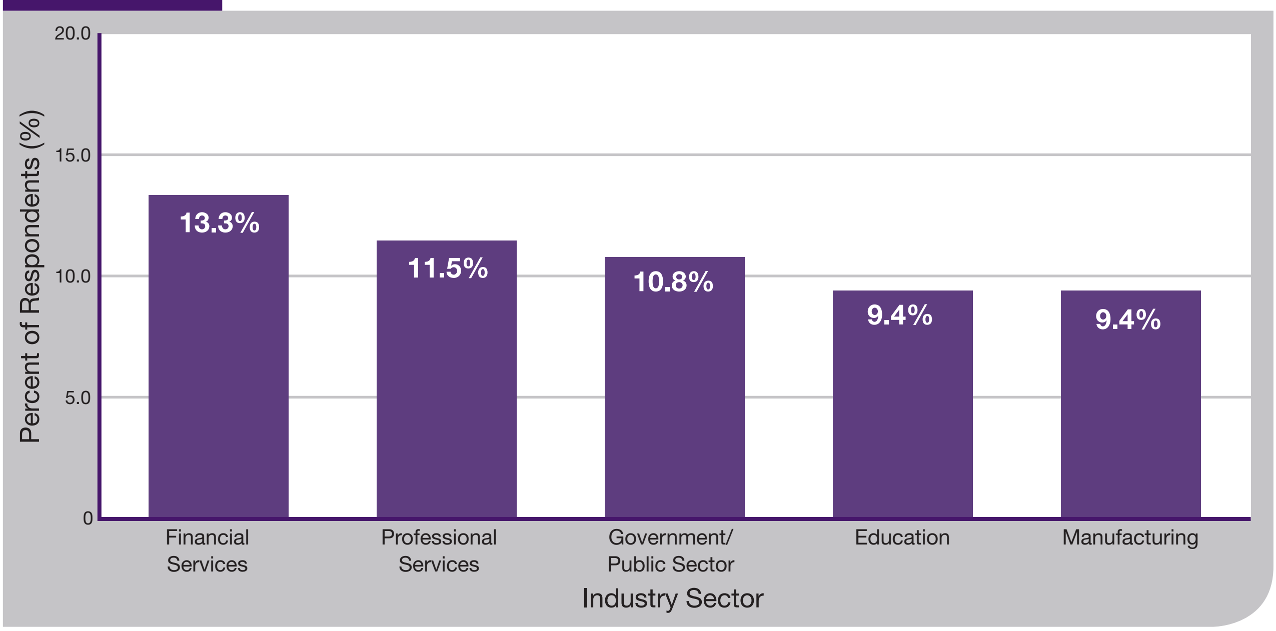


Figure 7 Top Five Industries Represented in the Survey



We received survey responses from organisations of all sizes and from all over the world.

As shown in Figure Five, almost a quarter of the organisations represented in the sample employed over 10,000 people worldwide. Over 58% of the respondents work in organisations employing over 1,000 people. At the other end of the spectrum, 12% of the respondents worked in organisations with less than 100 employees. This range in organisational size provided us with several important insights into the evolution of the facilities management function and its challenges.

About 39% of the survey participants are based in the United States; another 30% were in Europe including the UK; but 28% were from other economic regions. See Figure Six for a breakout of responses by region.

About 39% of the companies represented in the survey are headquartered in the United States; another 30% are based in Europe (including the UK). However, there was also solid representation from India, Africa, the Middle East, and Australia. In total the survey included responses from organisations headquartered in over a dozen different countries/regions.

Perhaps more importantly, the survey respondents own or lease facilities in more than twenty different countries and in every major economic region around the world.

However, only about 13% of the respondents work for organisations that own or lease facilities in more than ten different countries, while over 27% of the respondents operate in only one country. Single-country organisations are expected to manage FM very differently from large, global organisations that must deal with many different local laws, regulations, and building design codes.

The survey drew responses from over fifteen different industries; Figure Seven shows the top five industries as identified by the respondents (percentages refer to proportion of the entire sample). Note that no one industry made up more than about 13% of the total, and the other ten each represented less than 5% of the total sample.

Note that with the possible exception of manufacturing, these industries are all heavily information-based, with most of their employees working in offices (in contrast to factories and retail stores).

3.0 Emerging Themes

We have identified several distinct patterns in the evolution of FM, and in the issues confronting the profession today. While we do not quote individuals by name in this report, we do highlight comments from the executive interviews when they represent general patterns or are particularly insightful or instructive.

Six broad themes emerged from this study:

1. Facilities is increasingly being recognised as a strategic resource;
2. However, FM has had mixed success achieving strategic alignment with other elements of the business;
3. Large, global organisations face dramatically different challenges than smaller, more local businesses and they manage their facilities very differently;
4. Financial metrics and cost control continue to dominate facilities management;
5. Heads of facilities are still buried in day-to-day operational concerns; and
6. FM career paths are undergoing significant change, and the FM profession faces a potentially serious future talent shortage.

3.1 Facilities is increasingly being recognised as a strategic resource

The facilities management profession in 2012 is clearly in transition. There are dramatic differences among organisations in how the function is operated, who it reports to, how its efforts are measured and rewarded, and which functions are being outsourced to service providers.

We believe this diversity of practices is a direct reflection of the evolution of the function and its strategic role over the past decade. FM remains by any standard a "young" profession. Until the last decade or so there were very few meaningful choices in workplace design, or in how facilities were used; most offices were basically one-color, one-use partitioned areas (often called "cube farms", at least in the US) designed to minimise space costs.

Corporate employees had to commute to those facilities to get their work done; that is where all their files and other work-related information was stored, that is where their colleagues were located, and that is where they had to go to use telephones, access fax machines, and hold meetings.

Until recently there has been little understanding of how a facilities or workplace design could enhance workforce productivity, organisational performance, or business continuity and security. Yes, there have been many formal studies attempting to link various dimensions of workplace design with workforce productivity satisfaction, but few of them were definitive, and there is little evidence that they have had a serious impact on management practice.

Regrettably, business executives have been relatively immune to these studies and the recommendations they have made; for far too long workplace metrics been focused almost exclusively on cost.

That is of course now changing, but only slowly and at a different pace in different industries and different regions of the world. These changes are visible in the many different ways that FM is being structured, governed, operated, and evaluated in 2012.

The good news is that more and more organisations today are beginning to recognise, and to treat, facilities as a strategic resource, and FM as a strategic function. In some instances the Head of Facilities has been elevated to a senior executive role reporting to a Chief Operating Officer or equivalent.

Many organisations now include facilities and workplace issues in their executive committee and business planning conversations; some of them measure the impact of facilities on workforce productivity and business performance; and some view the quality of their facilities as an important contributor to the corporate brand, and to attracting and retaining talent.

Most of the organisations that treat their facilities as a strategic resource have outsourced the major facilities operational activities to service providers, thereby freeing up internal staff to focus more time and attention on longer-term planning and strategic issues. Outsourcing also provides clear accountabilities for financial and operational performance, and it often results in lower facilities costs (due in large part to the professional purchasing and contract management, and economies of scale, that focused service providers bring to FM).

It is very clear that a majority of facilities professionals agree with our opening position, that the FM function has, or should have, a significant strategic impact. Over 75% of the survey respondents believe facilities are a strategic resource today.

However, our interviews and survey data also suggest that ***there is a serious gap between beliefs and actions in this area***. Organisations that actually manage their facilities as a strategic resource are still in a distinct minority. Most Heads of Facilities still spend well over half their time on day-to-day operational activities, even when they know the strategic issues are more important. That is apparent across all geographies and industries, be they large or small enterprises.

The most commonly used FM performance measures are focused on financial performance and cost reduction; and over 50% of facilities functional groups are either part of a shared services infrastructure organisation, or they report to a head of CRE or to the CFO.

Those practices do not suggest that facilities are managed as a strategic resource; in fact, quite the opposite.

3.2 FM has had mixed success achieving strategic alignment with other components of the business

In general, facilities organisations believe they are relatively well-aligned with finance, with business units, and with the corporate strategy and vision. They are also, as we would expect, reasonably close to corporate real estate groups. However, only about half of them consider themselves well-aligned with their peers in IT, and just over 40% believe they are in alignment with HR and other infrastructure groups.

Given our view that all of the infrastructure groups exist only to enable the workforce to produce value for the organisation, this is a disturbing situation.

We are particularly concerned about the low levels of alignment that FM experiences with HR and IT. We believe there are several factors contributing to the difficulty that FM is having working with these other functional specialists:

- a lack of appropriate early career education and professional training (in all of these functional areas)
- poor professional and/or managerial development (where it exists at all);
- inadequate management systems and performance metrics; and
- poor executive leadership.

Early career education and training

There is no typical early career education and training among professionals who today find themselves in the role of Head of Facilities (or a similar role) in organisations of any size and type. Some come from the building-related professions (architecture, interior design, construction) into FM. Some come from the "soft-service" disciplines, such as catering, or from hotel management. Some have had responsibility for financial management of real estate and facilities, and moved into an operational role. And some Heads of Facilities have been recruited from the core business, usually because of their knowledge of how the organisation and/or sector works.

It is much more likely that the Head of Facilities has had some exposure to finance, and understands at least the basic disciplines of annual budgeting and continuous financial control and reporting, as finance is the common glue across any business.

While senior HR and IT executives have usually had more focused professional training early their careers, it is just as likely that none of them has had any significant exposure to facilities management. Thus, on both sides of the divide there is little understanding of the other functions, or even a realisation that those other areas have anything to offer or any common interests.

It is also less likely that Heads of Facilities who have come up through one of the sub-sectors, such as building engineering, architecture, or some of the other facilities services, have had early career education and training in general business. So management development and cross-functional education becomes critical for FM, as it is for other functional specialties, but is too often limited.

Thus one of the major reasons that there is such poor alignment across these different infrastructure groups is that each area has its own special focus, its own language system and conceptual frameworks, and its own views of what the workforce needs to be effective.

Professional and management development

To combat these silos, the best organisations put their high-potential management prospects through an extensive rotation training program, so they can get exposure to all areas of the business, in particular those that are far removed from an individual's primary area of expertise. When those who have been through such training later need to align their functional area with others, they understand why and how, and they have learned to speak the language of their colleagues.

Many of the larger, older organisations, such as the UK Civil Service (government support), the military, and mature corporations, have a "staff college" of some description. These kinds of programs were originally set up to teach leadership and strategic planning, and to prepare managers with operational experience to play a more strategic, forward-planning role within the corporate staff area.

One of the best-known and most effective management development programs of this kind was (and in many ways still is), the General Electric (GE) Corporation's Leadership and Learning Program located at Crotonville, New York.

GE's up and coming managers spend weeks at a time deeply engaged in formal education programs and development projects that serve to hone their leadership skills and expose middle managers to each other and to GE's senior executives, all with the intention of building the company's future leaders.

For an aspiring Head of Facilities, a "staff college" experience would be a great route to achieve understanding of the other disciplines, and to establish friendships and relationships with functional peers from HR, Finance, IT and other areas.

Programs like GE's have regrettably become far less common today, usually for cost-reduction reasons. Unfortunately the costs of not providing future leaders with effective leadership training and cross-functional learning are hard to measure, and thus suffer in comparison the easily measured costs of building and maintaining such programs.

Inadequate management systems and performance metrics

As the research clearly shows, when the alignment among infrastructure groups is working well it is most often attributable to good interpersonal skills on the part of one or more of the functional group heads. Only a small percentage of the survey respondents, and almost none of the executive interviewees placed any value on formal committee structures or even common performance measures (see Discussion of Findings below).

The reality of organisational life, especially among senior corporate staff, is that formal mechanisms like committees and performance metrics more often get in the way of working together than they incentivise collaboration or alignment.

Consider, for example, this comment from the global Head of FM for a major international financial organisation:

We are under extreme cost pressure. For us in FM, HR is 'just' a user of space – they are very divorced from the workplace. IT is localized, involved in low-level discussions, but not at a strategic level. ***We have no real mechanisms for discussing the future of the workplace*** *– and management is very traditional in its views; they want everyone in the office most of the time. So we feel very isolated and underappreciated.*

Weak executive leadership

Due to some of the deficiencies described above, the executive leadership of functions such as real estate and FM, and others like HR and IT, must be that much stronger to compensate for the frequent absence of general management knowledge among these more "technical" subordinates.

By stronger, we mean that executives who oversee these infrastructure/support functions must become more aggressive in demanding greater alignment and even active collaboration among them.

The "boss" of the Head of FM must set out very explicitly why and even how she/he should build relationships with other colleagues – for example the HR Strategy Manager. What should they be working on together? Where are their areas of mutual interest and overlap? What common initiatives could be developed through a formal program or project (such as "agile working," flexwork, or something similar)?

In our experience, this kind of leadership rarely occurs. Unfortunately, it is difficult for FM heads to coach upwards.

The most effective FM leaders do not wait to be forced into collaborative activity; they take it on themselves to reach out, to spend time with other groups, and to learn what is needed. One head of FM for a global financial back office service provider commented that:

We have to do demand planning to anticipate future workspace needs. Since there are no formal processes for bringing everyone to the table, I initiate meetings with each of our major Business Unit heads twice a year, and I personally visit our country managers as often as I can.

We also look directly at head counts in HR and IT (which make up a high percentage of our total staff since we are basically an IT service provider). Frankly, we have little interaction with HR, but we do work closely with IT since they, like us, have to provision all new employees (as well as everyone else, of course).

3.3 Large, global organisations face dramatically different challenges than smaller, more local businesses – and they manage their facilities very differently

While some of these differences relate simply to scale of operations, it is worth remembering that ultimately facilities is a very local business; each building is located in a specific community within a specific geographic region. It may be possible to oversee the management of a facility from a distance, but it is currently impossible to clean a building or trim the surrounding vegetation remotely.

More importantly, when an organisation operates in many different countries, it obviously has to cope with varying real estate, construction, and operational practices, including different legal, regulatory, and cultural contexts. Thus, while this observation may seem obvious and unsurprising, it is important to recognise that the differences between smaller one-country businesses and global operations is not simply a difference of scale; there are major increases in complexity as a business expands internationally.

Even in very large multinational organisations the actual FM operations are most often in-country, perhaps with a regional co-ordination role that covers activities like:

- standardisation of services;
- best-practice initiatives;
- negotiation with, and oversight of, local service providers
- compliance audits;
- local representation of company-wide policies and change initiatives;
- upward reporting of performance and progress; and
- succession planning.

There are at least four ways that global organisations (Multi-National Corporations, or MNCs) seek to leverage their advantages of scale and overcome the complexities they face:

1. **Command and Control.** An efficient command and control function works to standardise the way it works with the many different services and inputs/outputs around the world. For example, The Service Level Agreement (SLA) structure and management information and reporting systems should ideally be the same (or at least very similar) everywhere. Common reporting frameworks, even in the face of different local customs and regulations, simplify communication and decision-making up and down the hierarchy.

   There is increasing evidence of a desire to industrialise FM, which is arguably a code for "making functional management a commodity across all business units". It is well worth noting that CRE and IT are just as affected by this trend as is FM.

2. **Deeper Outsourcing.** Having a regional or global sourcing deal creates a huge opportunity to turn over some (or all?) of the day-to-day management responsibilities for FM to a service provider (and to transfer at least some portion of the risk). Doing so can free up the remaining staff to focus on strategic issues and spend much more time interacting with the "buyers" of the facilities – end users and in particular senior business executives and SBU heads.

   The global organisations that can afford to do this kind of outsourcing tend to have more dedicated FMs focused on the challenges and activities listed above. This phenomenon is discussed in more detail in later sections of this report.

3. **Procurement.** Most large MNCs have procurement departments that have the level of influence to make points 1 and 2 above a reality. While procurement process improvements can readily become bottom-line savings, most procurement groups are actually trying to restructure functional elements (FM, CRE, IT, other infrastructure groups) to be more SBU-focused and (as noted above in #1) "make functional management a commodity across all business units".

4. **Economies of Scale.** MNCs can adopt technologies that have high fixed setup costs that smaller organisations typically find prohibitive, such as enterprise-wide Computer-Aided Facilities Management (CAFM).

More broadly, the large MNCs usually have a corporate FM group that oversees and coordinates the local, regional operations, focusing on portfolio strategies, establishing common performance metrics, and overseeing large design and construction projects. The essential difference between MNCs and more local FM groups is a focus on scale, consistency from one region to another, and the opportunities for learning (and the avoidance of making the same mistakes over and over).

These differences have major implications for FM groups as organisations grow beyond local borders, and for FM professionals as they develop their personal careers. Does an organisation (or an individual) with extensive in-country experience have the skills or the perspective to move to the next level and deal with multi-country facilities issues? All too often the answer is no. That vacuum is increasingly being filled by CRE professionals and major projects specialists. We believe this trend helps to explain the significant changes in FM's reporting relationships as businesses grow in size and geographic diversity.

3.4 Financial metrics and cost control dominate the management of facilities

Misalignment among infrastructure groups is also caused by imposition of a narrow set of performance metrics. Almost 80% of facilities groups are measured first on performance against budget. But while nonfinancial metrics like service levels achieved, cleanliness, sustainability performance, and employee satisfaction are also important, financial results clearly dominate management thinking.

This over-emphasis on financial outcomes means that it almost does not matter if the FM group is helping the workforce be more productive, or helping attract and retain staff, or reducing environmental costs. If costs have not been driven to an absolute minimum, nothing else really matters.

This focus on financial outcomes reflects not only the history of viewing facilities from a cost (and therefore a cost-reduction) perspective, but also the difficult realities of the current global economic crisis. Senior business executives clearly continue to believe that facilities costs are too high, while they do not yet understand the impact that well-designed facilities and workplace programs can have on business metrics like workforce productivity and attraction/retention.

The challenges of reducing costs and budgets were by far the most important and most frequently-identified strategic challenge by both the survey respondents and the FM executives we interviewed.

Cost control appears to be deeply embedded in the governance of FM, in all regions of the world. One Head of FM in an Asian high-tech manufacturing firm put it this way:

We have two major KPI's [Key Performance Indicators] for performance evaluation: our clients' satisfaction rates, and the expense rate we are budgeted for.

On the one hand, we use cost allocation to manage our clients' demand for workplace resources and relevant services, and to minimize the FM cost per headcount. On the other hand, we also have to maintain sufficient budget and resources for day-to-day operations, to ensure work efficiency within the workplace.

3.5 Heads of facilities are still buried in day-to-day operations

In spite of the widespread belief that FM is already strategic, the fact is that the typical Head of Facilities spends on average almost 54% of his/her work time dealing with day-to-day operational issues, whether that means responding to a service issue, reviewing daily performance reports, or approving current purchases. Less than 21% of the time, just one day a week, is devoted to strategy and planning.

We suspect (and several of the executives we interviewed confirmed) that a big part of this problem is the simple reality that making sure the facilities are operating is Job One; it is simply not a responsibility that can be ignored. Making sure the lights are on, the HVAC is operating properly, the building security is effective, the restrooms are in working order, will always be more urgent than working on the five-year plan, next year's budget, or investigating whether replacing the overhead lights with LEDs will save $1 million over the building's lifetime.

There is no obvious way to avoid dealing with day-to-day operations. When something goes wrong (as it all-too-frequently does), the issue has to be resolved before the Head of FM can get back to being "strategic".

Certainly an effective head of FM will have staff who can (and do) deal with 99% of the operational challenges. But the fact remains that building operations are highly visible to everyone who is on-site, including the CEO and other senior executives. When something is obviously off-kilter those senior executives do not call the building engineer or the maintenance staff; they call the Head of Facilities.

When the Head of Facilities (and we actually include all the senior FM staff in this comment) comes from an engineering or operations background, the desire to establish and maintain high service levels is an inbred value. Historically, doing it right is a prevailing mindset in the profession, and we must acknowledge that is basically a good thing.

It is also probably true that people who like operations, and excel at managing details, tend to self-select into FM. It is a natural career path for individuals who enjoy managing tangible, visible activities that can be measured directly. Thus, FM professionals who appear to be buried in day-to-day operations, to the detriment of playing a more strategic role, are often doing it by choice.

Furthermore, excelling at daily operations is also good for job security. The buildings always need attention; it is not as obvious that strategic planning, which can feel discretionary on any given day, is not getting done.

Finally, the vast majority of business leaders have had little or no exposure to FM. They do not consider it a strategic resource, or understand what a difference a world-class facility can make to the business. Hence they do not consider engaging the FM group in their strategic deliberations, and they are not receptive to the concept even when the Head of FM does think strategically.

Unfortunately it all becomes a self-fulfilling prophecy. It takes an aggressive, articulate, and forward-thinking Head of Facilities to break the cycle. More on how to do that in the Recommendations section of this report.

3.6 FM career paths are undergoing significant change, and the FM profession faces a potentially serious future talent shortage

As organisations turn to service providers and increase the outsourcing of FM tasks, the career paths of FM specialists are undergoing dramatic change. In 2012, a growing percentage of FM employment is within the service provider industry, which in turn is expanding and maturing at a rapid pace.

We believe this shift will produce a new generation of FM specialists who are skilled at both traditional FM responsibilities as well as at project management and client relationship activities.

Furthermore, we believe the advancing professionalism of the service providers will eventually also produce experienced FM professionals who understand how to measure FM performance not only in traditional terms, but also in terms of business impact. A service provider almost by definition has to be capable of tracking the value-adding impact of its activities – and to monitor its own performance, learning from experience and doing forward planning to ensure continuing commercial success.

Yet in spite of these long-term improvements in the FM profession, we believe that end-user occupiers will find it difficult to recruit and train individuals capable of leading FM from the end-user side.

As more and more FM professionals seek – and find – employment on the service provider side, the profession will mature, but only from an operational perspective. As we understand the industry, service providers focus very effectively on what they are paid to do: design, construct, and operate facilities on a short-term, cost-effective basis.

From what we have learned, only a small number of senior managers within a service provider organisation spend any significant portion of their time in contact with senior end-user executives – and those client representatives are almost always the FM clients, not occupier *business* leaders.

Thus, the shortcomings we have cited in the education and training of FM professionals will be exacerbated, not solved, by the growth of outsourcers and other service providers. The operating professionals in the industry will be even further separated from end-user business issues; even measures of FM value-add like enhanced workforce productivity and engagement, and attraction/retention, will be seen primarily as measurements (with financial and contractual consequences) by service provider staff, not as strategic imperatives with intrinsic importance to the future of the ultimate client organisation.

There is an ironic and largely unanticipated consequence to the “professionalization” of the FM industry; as the profession becomes more mature and more valued, it risks becoming more narrowly focused on “pure” FM knowledge and skills, to the detriment of the most critical “general management” skills we highlighted earlier. This is not unique to FM of course, and is a feature of many other professions when working in the wider world of general business and management (which is why RICS has developed general management training options for post-experience Chartered Surveyors)

4.0 Discussion of Findings

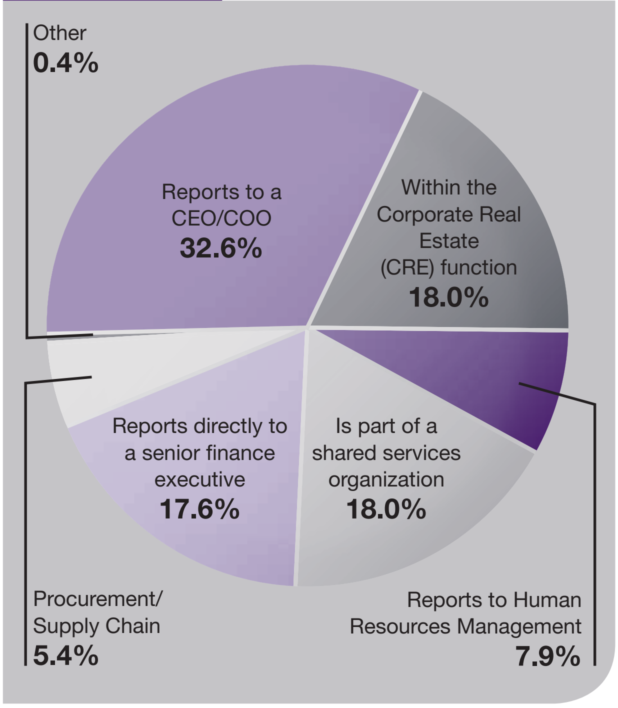
This section of the report expands on the six themes discussed above and addresses the state of the FM profession in more detail. Here we follow the organisation of the survey more directly. However, we have also included direct quotations from selected executive interviews when they are relevant and helpful in adding insight.

We discuss in turn the following major question areas that were included in the survey:

- **The FM function within the larger organisation.** where does FM report? We also look at global versus business-unit structures.
- **FM performance measures.** How is the FM function's effectiveness and efficiency measured? What impact do these metrics have on FM's focus and functional strategy?
- **Strategic alignment and activity.** How well aligned is FM with overall business strategy, and with other functional areas like Finance, HR, and IT? Just as importantly, what organisational mechanisms do FM leaders rely on to work with their peers in other functional areas?
- **Insourcing/outsourcing strategies.** Which major FM tasks/activities are being outsourced to third-party service providers in 2012? And what are the implications of outsourcing for FM leadership and its strategic role? We also include a brief historical note that outlines the experiences of IT organizations in the 1980's as they both outsourced operational activities and became widely recognized as a strategic resource in most organisations.
- **Top issues facing FM.** We also identify the most challenging issues facing FM leaders, drawing on narrative responses to the only open-ended item in the survey.

Finally, this section concludes with a summary of the organizational patterns that we identified during the individual executive interviews that were conducted both before and after the administration of the survey. These patterns are similar to, but not identical with, the broader insights we gained from the survey itself.

Figure 8 Where does the FM function report?



4.1 The FM function within the larger organisation

As we have already suggested, FM is in transition. As often happens in transitions, there are wide variations in the role that FM plays in organisations around the world, ranging from where it reports, to how its performance is measured, to what impact it has on business strategy, to how well it is aligned with other infrastructure functions.

One particularly surprising finding was the fact that almost one-third of the survey respondents reported that the FM function in their organisation reported directly to the COO (see Figure Eight).

However, 36% of facilities groups are embedded within either corporate real estate or a shared services organisation. Another 17.6% report directly to a senior finance executive. In other words, almost 54% of the facilities organisations do not have meaningful direct exposure to a C-Suite executive other than the CFO (if that).

Figure 9 Reporting Relationships versus Organisational Size

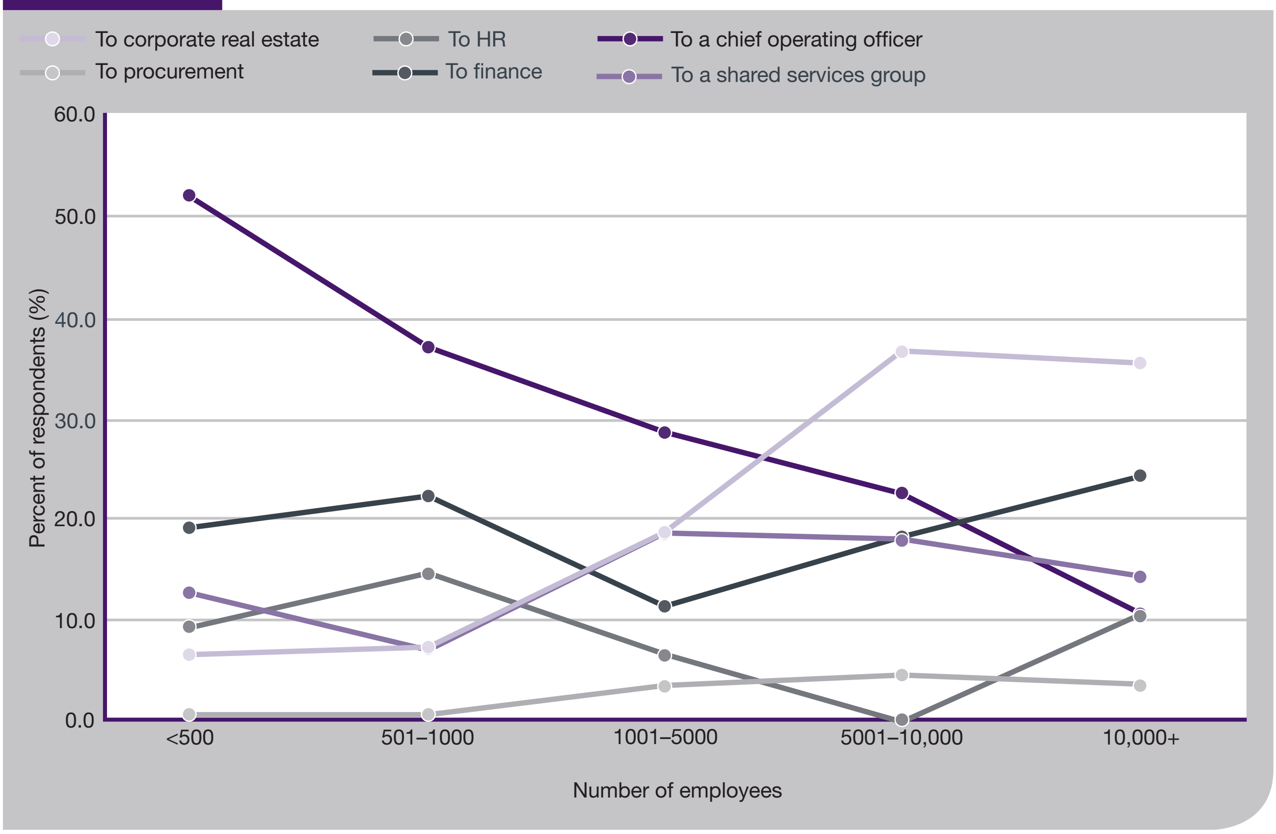
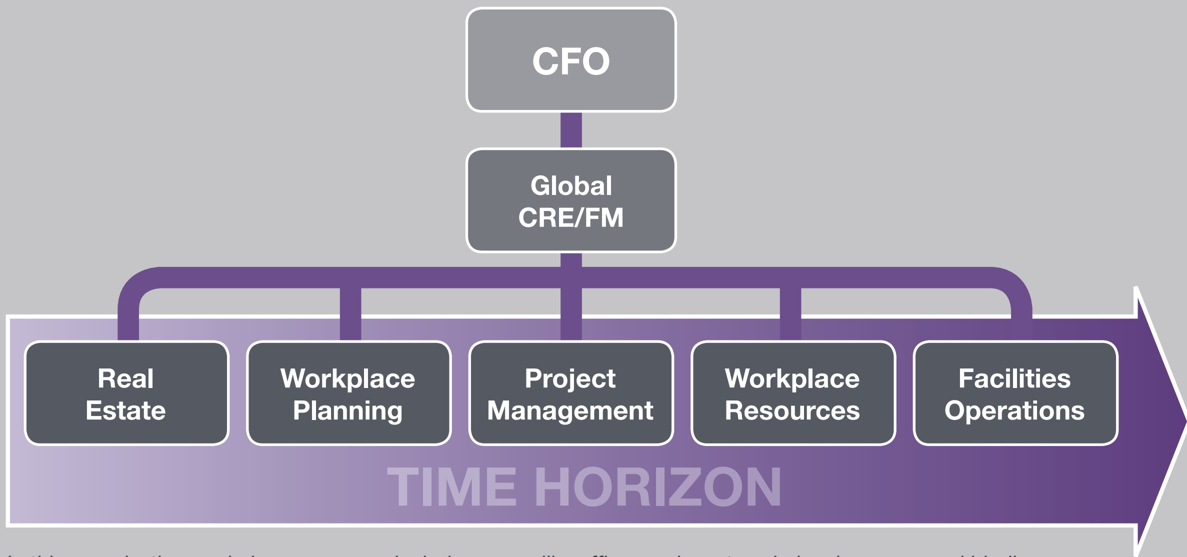


Figure 10 **Organizing CRE/FM by Time Horizon**



In this organisation workplace resources include groups like office services, travel planning, copy and binding services, reception, fleet management (cars and vans), and security. Facilities operations include building maintenance and engineering, landscaping, and other activities directly focused on keeping the buildings themselves in good working order.

This finding took on new meaning when we sorted it by organisational size. As shown in Figure Nine (below), in very small organisations (fewer than 500 employees) over 50% of FM groups report directly to the CEO or COO.

However, at the opposite end of the spectrum, in organisations employing over 10,000 people, only about 12% of FM groups report directly to the CEO or COO. In large organisations FM reports most frequently to the head of Corporate Real Estate, or to Finance.

This analysis reveals an important issue: as organisations grow in scale (and therefore in complexity and geographic dispersion) FM becomes both more complex and more essential. However these shifts in reporting relationships suggest that FM also appears to receive less attention from senior management in larger organisations as its activities and accountabilities are subsumed within other infrastructure organisations.

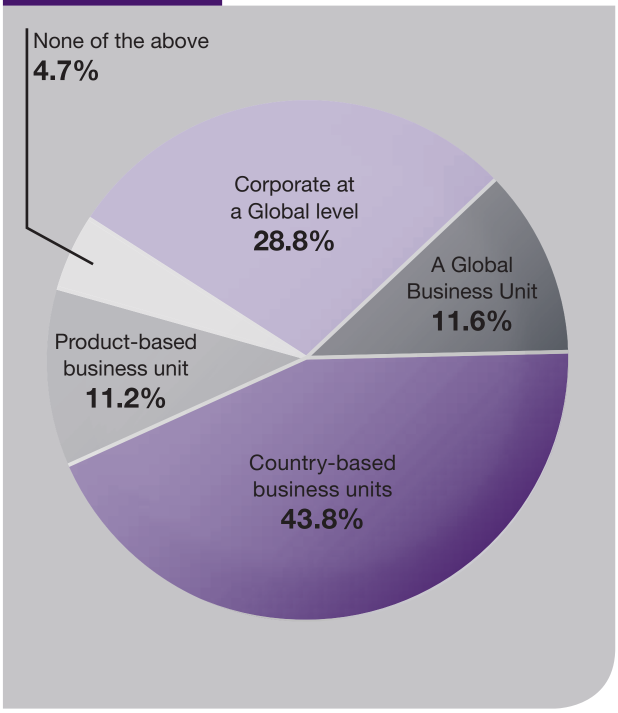
That is a "Good News/Bad News" scenario. In larger organisations (generally multinational corporations, or MNCs), FM has larger budgets, is more sophisticated, and generally attracts more experienced professional staff (on higher salaries). Thus, it usually requires less direct attention from the highest levels of the organisation.

However, that downgrading within the corporate reporting structure also means that FM is often left out of long-term strategic planning discussions, has less visibility into the thinking of senior business executives, and is less visible to those same executives.

Example:

The global Head of CRE and Facilities for a high-tech software development firm reported to us that he manages all of the core infrastructure groups through an organisational structure that is based on time scales. He has defined a range of responsibilities that goes from long-term and strategic at one end down to day-to-day operational requirements at the other. His group structure is depicted in Figure Ten, above.

Figure 11 How is your FM team organized?



Global versus Business Unit Charter

We also asked whether the facilities function had a global charter, or whether members of the facilities team reported separately to global or regional product groups (see Figure Eleven, below). We saw no real pattern here, other than a very mixed range of choices.

The most common arrangement is to place the facilities function within country-based business units, which makes sense when we consider that any given facility is located in a specific place and is essentially immoveable.

Organising FM at a country level is common for at least four reasons:

- common legal requirements and ownership/ leasing procedures;
- proximity of FM staff to facilities locations;
- common languages and cultural expectations; and
- availability of local service providers

Again, because a facility is located in a specific place, most facilities services must be provided locally (e.g., landscaping, cleaning, building maintenance and repair). This necessity has major implications for the way the FM function is managed, governed, and even measured.

We originally expected to find significant regional differences in FM structures, especially in Asia, but our analysis of survey responses by economic region showed no meaningful differences in basic organisational practices.

4.2 FM Performance Measures

The research also explored which metrics are used to measure and evaluate the management of facilities. In other words, what business goals and success measures does senior management rely on to assess the performance of the FM team, and what measures are used by the team itself to manage its own performance?

Although many businesses and even government agencies now make use of a "Balanced Scorecard"[8] to focus management attention on areas of performance beyond the purely financial, **we found very few instances where organisations are actually paying attention to performance measures other than purely financial ones**.

Despite almost 60% of respondents claiming that they measure employee satisfaction with the workplace there is little evidence that satisfaction scores matter to senior management.

It is not surprising to learn that the most common measurement in use today is performance against budget; some version of that concept is used by 80% of the survey respondents, and by every one of the organisations we interviewed in depth. That is a solid financial metric; it focuses on actual performance versus planned or approved budgets.

However, it was also clear from our interviews that, in 2012 at least, the most fundamental question being asked is how much less was budgeted and spent this year than last. "Annual Trends" was actually selected by just over 50% of the survey respondents, making it the fifth most popular metric.

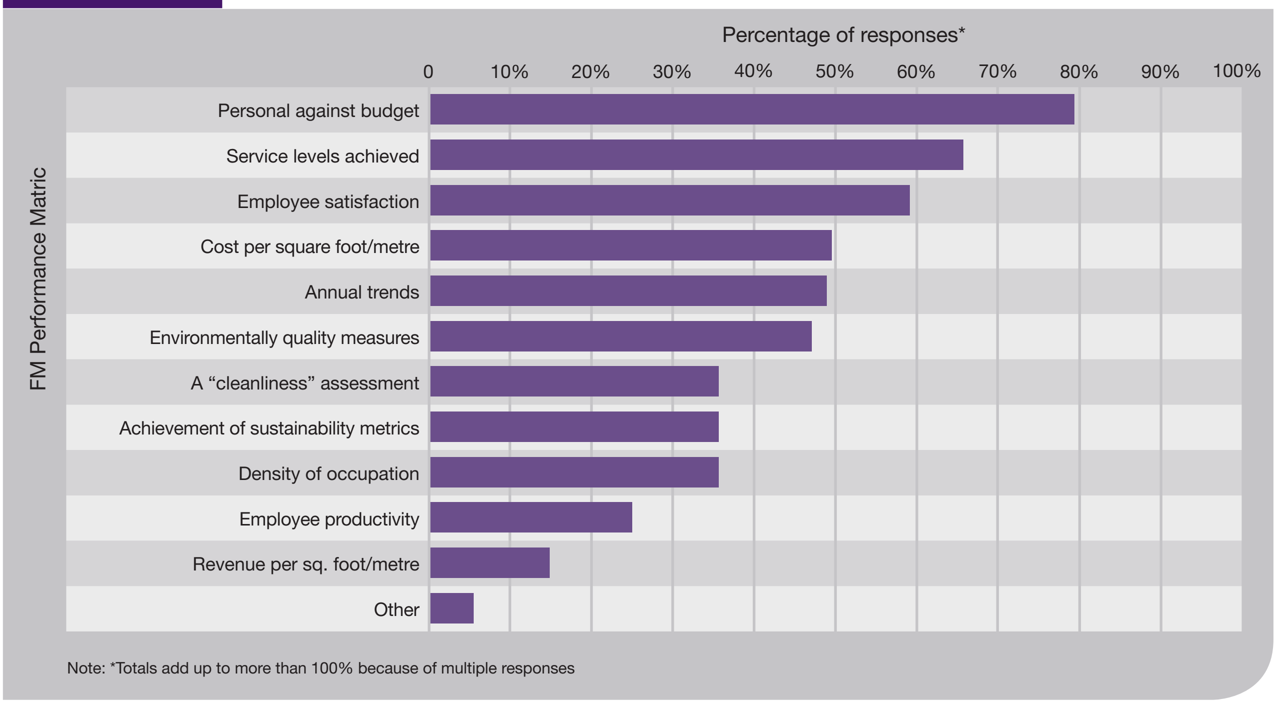
The metric "Annual Trends" overlaps all of the other dimensions of measurement, and "What have you done for me lately?" succinctly captures the relentless financial pressures that senior business executives are placing on Heads of Facilities all over the world.

Regardless of other perspectives on whether facilities is a strategic resource, these success measures confirm that the facilities management function is still seen by senior management largely as a cost centre. Even in organisations where the workforce is still growing, there is clear pressure to reduce the total cost of occupancy per employee.

As the head of facilities in a major global financial institution put it,

"Senior management doesn't 'interfere' with us as long as we meet our budgets and other targets. But if we overspend they come after us with a vengeance."

Figure 12 **How is performance of the FM function measured?**



8 See the website at http://www.ge.com/company/culture/leadership_learning.html for a current overview of the Crotonville program.

Of course, there are many different dimensions along which performance can be tracked against budget, or over time. Among the ones we know are in common use are:

- cost per square foot/metre of space;
- real estate and/or facilities cost per employee;
- square feet/metres per employee.

Again, however, it is important to point out that none of those measures captures anything at all about the impact of the facility on the workforce or on ultimate business performance (other than cost reductions). All of them are measures of the *efficiency* of the facilities, not of their *effectiveness*.

The second-most popular dimension of performance, which does begin to address effectiveness, is service levels achieved, which was in use by 70% of the organisations included in the survey. That again is a broad conceptual category, but it generally includes details like how quickly problems are identified and resolved, or what percentage of the work week (or month, or year) the building is available, power is on, temperature is appropriate, and so on.

The next most popular metric is Employee Satisfaction, used by 60% of the respondents. Frankly, we are surprised that less than two-thirds of organisations use employee satisfaction as a measure of success. It seems self-evident that user satisfaction is critically important; and it is also a good indicator of service levels being achieved. After all, if service levels are below standard (or are being met but were set inappropriately low), complaints will be high and customer satisfaction will be low.

Not surprisingly, FM groups that outsource most or all of their operational responsibilities to a service provider tend to have more, and more formal, performance measurement systems in place. After all, the only way to make an outsourcing contract meaningful is to back it up with performance measurements that create and monitor accountability.

As the director of facilities for a global pharmaceuticals company told us:

We have a master service agreement with [our service provider) that includes 30+ KPI's (Key Performance Indicators). Many of them are fairly traditional measures, but we also track customer satisfaction, and our customers (end users) judge [our overall service provider] on the quality of the third-party suppliers that it brings in. [The service provider] conducts regular surveys of senior management and the "regular" staff that use the facilities. ***We and our service provider are thinking together about workforce productivity measures, but we are not there yet****.*

In any discussion of formal success measures, it is important to remember that ultimately how FM achieves its results is almost as important as what those results are. As the head of property management for a global insurance company put it,

We want to start measuring space utilization; but right now we are not paying much attention to detailed metrics like that. Our business today is stable; we focus on the lease deals and then forget about it. We are essentially measured on delivery against objectives, but our working relationships are terribly important. ***We are judged half on our achievements, and half on how we do it.***

4.3 Strategic Alignment and Activity

One of our primary purposes in conducting this study was to explore whether facilities in 2012 are being managed strategically, and what issues FM executives face as they confront strategic challenges and opportunities.

The survey asked three basic questions about the strategic alignment of FM with other core components of the business:

1. **Time Spent.** On average, what percentage of time does the person responsible for heading the facilities management function spend on day-to-day operations, major special projects, and longer-range strategic planning activities?
2. **Functional Alignment.** How well aligned is your FM strategy with each of the following (the corporate strategy/vision, business unit strategies, finance, HR, IT, and other infrastructure groups)?
3. **Strategic Alignment.** How important is each of the following activities/processes in helping achieve strategic alignment (formal committees, informal working groups, a "relationship manager" role, and personal relationships)?

Allocation of time

One of the key findings was that Heads of Facilities spend over 50% of their time on day-to-day operations, and less than one day per week on strategy and planning (Figure Thirteen):

We also looked at how the Head of Facilities allocates his/her time as a function of organisational size. Our expectation was that the Heads of FM in smaller companies would be more caught up with day-to-day responsibilities, while larger organisations would have large FM staffs and would outsource more of the facilities responsibilities, thereby freeing up the Head of FM to spend more time on strategy and planning.

We were therefore surprised to learn that organisational size makes very little difference in how FM heads allocate their time (Figure Fourteen). Although there is a small decrease in time spent on day-to-day operations as organisations get beyond 10,000 employees, that freed-up time seems to be absorbed about equally between major special projects and strategy/planning activities.

Figure13 Allocation of Time by Head of FM

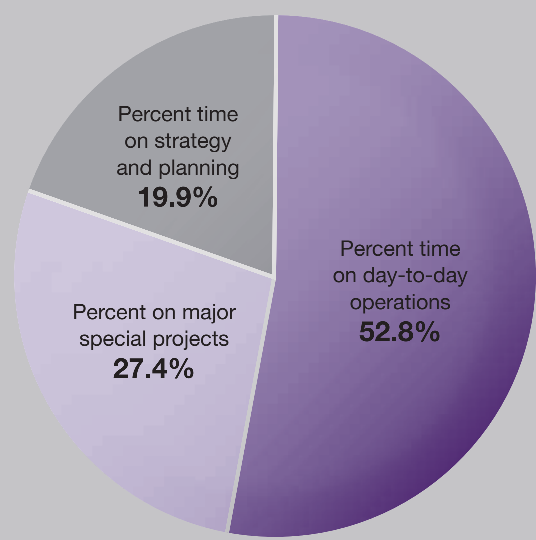
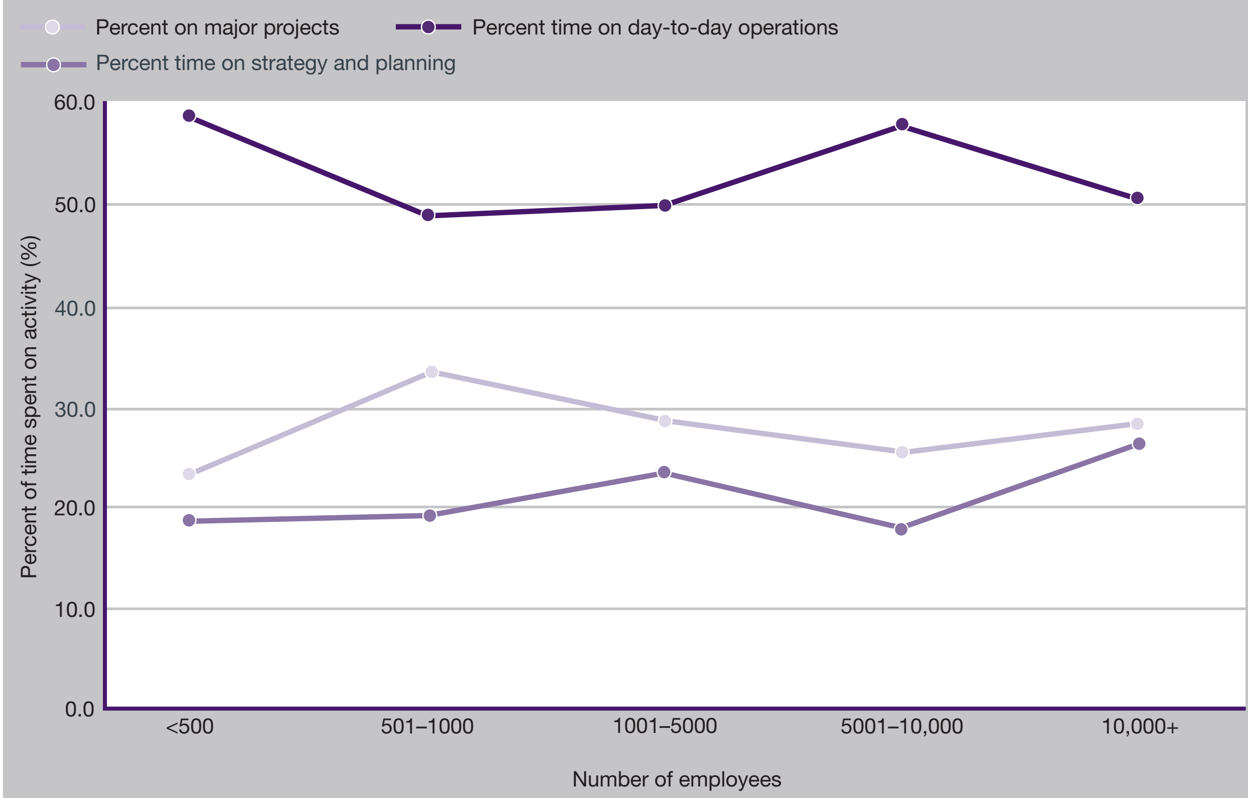


Figure 14 Time Allocation by Size of Organisation



We also discovered a wide variety of beliefs about whether FM is, or even should be a strategic function. As one head of FM in Southeast Asia put it:

"FM is a support function! It is unrealistic to think FM will have a place in the Boardroom…it won't."

Another, the Asia regional head of FM for a global pharmaceutical manufacturer, said this:

"FM is always an operational to tactical process. And I am not sure the Customer really cares; FM is more of a hygiene factor in our organisation."

However, that attitude was relatively rare in our conversations. It may be reflective of the relative "youth" of FM in Asia, even – or especially – in the Asian operations of global enterprises.

By far the vast majority of senior FM professionals we spoke directly with believe that FM is in fact a very strategic resource, even though it is not yet widely viewed as one by senior business leaders.

Again, as we have suggested throughout this report, FM is in transition along many dimensions. Increasingly, it appears, senior FM professionals are thinking and acting as the leaders of a strategic function; and, not surprisingly, those beliefs and behaviours are becoming self-fulfilling.

Strategic and Functional Alignment

As Figure Fifteen shows, FM considers itself reasonably well-aligned with Finance, and with both corporate and strategic business unit strategies, but significantly less so with IT and HR.

It is striking, and somewhat concerning, that alignment with HR is so low; less than 50% of the survey respondents believe they are even moderately aligned with HR.

These findings are completely consistent with responses in the individual executive interviews we conducted. While in many instances there is a solid partnership with IT, numerous (and unsolicited) comments about the difficulties of working with HR were received.

As one executive in a large financial services organisation told us,

"We just can't get the HR folks to sit down with us, even though we believe our facilities have a major impact on staff attraction and retention. They seem preoccupied with compliance issues and headcount control – and they never tell us about future staffing needs, which obviously makes it very difficult to understand our future space requirements."

Figure 15 **Strategic alignment between Facilities and other functional areas**

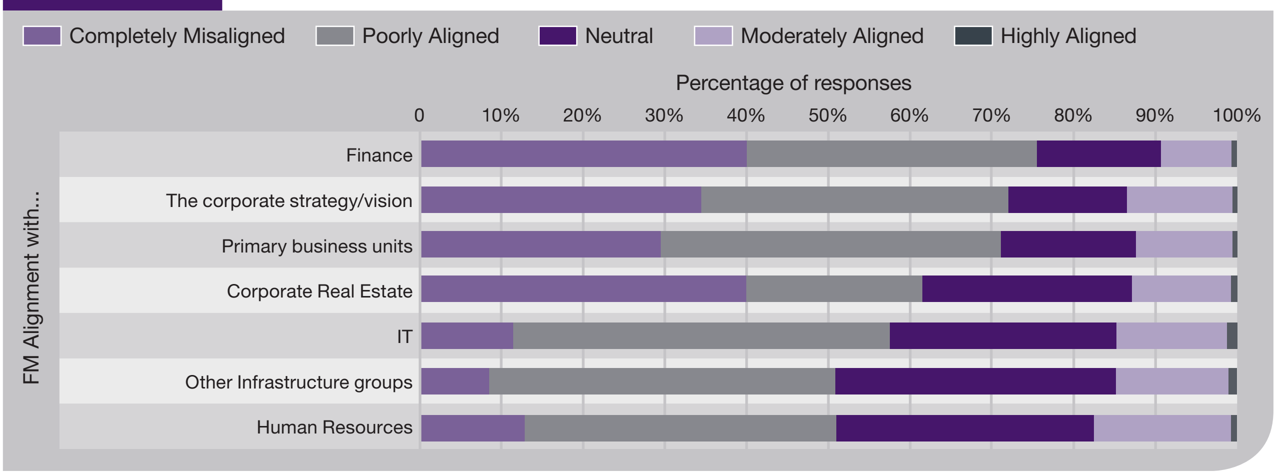
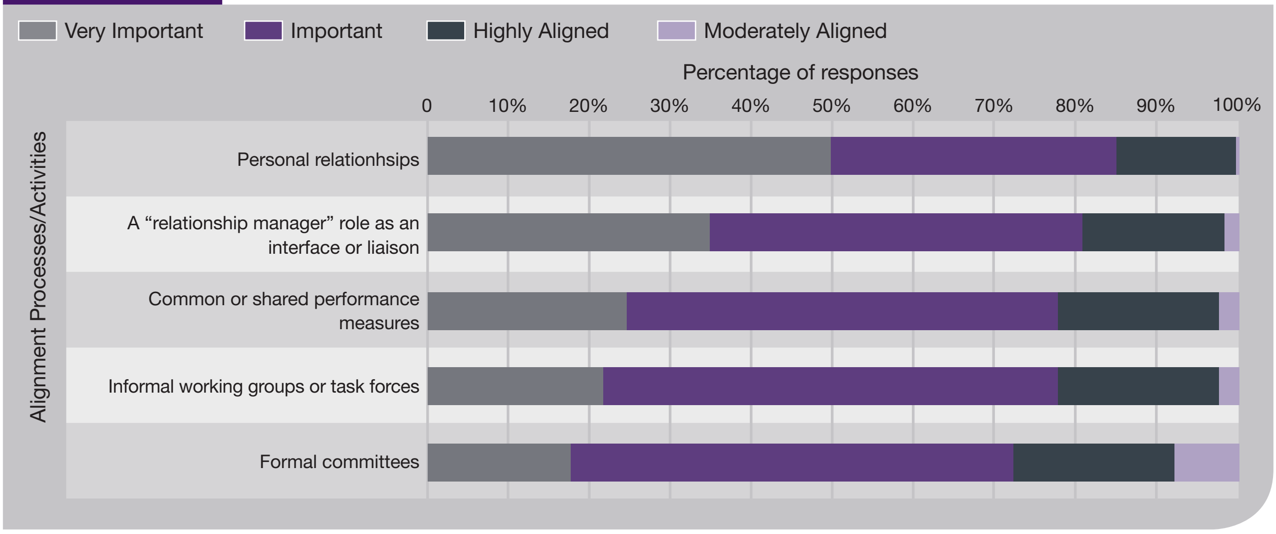


Figure 16 How important is each of the following activities/processes in helping achieve alignment?



On the other hand, only less than 20% of the facilities executives we spoke with directly appeared to see any connection between their functional priorities and staff attraction/retention.

This is one of the most important issues this study has identified; there is a great deal of work to do in this area.

Interestingly, facilities executives and professionals alike believe the most important mechanism for achieving alignment is not formal committees or even informal working groups; it is personal relationships.

As Figure Sixteen shows, over 80% of the survey respondents believe that personal relationships are important or very important in helping achieve alignment. At the opposite end of the spectrum, less than 60% of the respondents believed that formal committees were useful.

Most of the senior executives we interviewed agreed completely with that judgment. If there is any pattern to their management styles, it is that they are proactive in reaching out to important peers and senior executives, and they use a wide range of tactical approaches. Here are just a few of their comments.

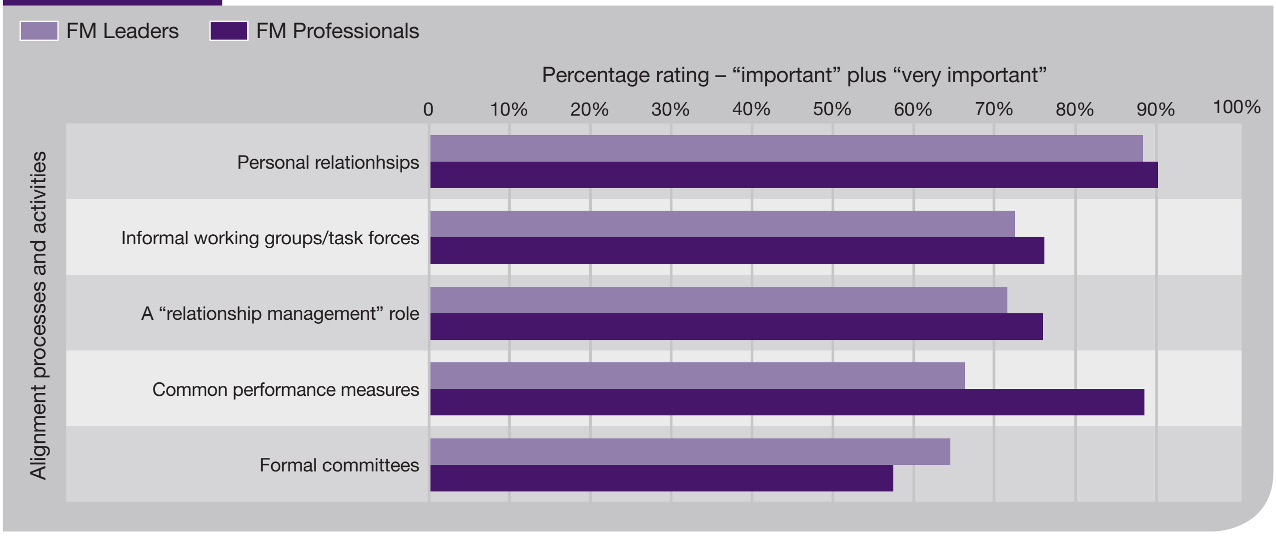
The Head of CRE and Facilities for a high-tech company:

“We have a Corporate Leadership Team (called the “CLT”) that includes six key officers: the CEO, CFO, Software Engineering, Sale, Brand and Marketing, and HR.

The CLT meets six times a year; I present status reports and updates on major projects. I also meet frequently with the individual members of the CLT. We conduct a formal CRE/FM review every 18 months. Finance drives our budgets and headcount plans; and those plans drive Real Estate strategy and projects.

In our company HR just does basic recruiting and HR policies; they are not really strategic thinkers at all.”

Figure 17 **Importance of Alignment "Tools" by Job Title**



The Senior Vice President of Facilities and Property Management for a global financial institution:

"I depend on my personal relationships with my peers and the C-Suite folks. I spend personal time with most of the senior executives on a regular basis. I also deliver formal reports to the Board every 6-8 weeks.

We publish regular updates on all our major projects. We also communicate more widely by holding live "Engage" sessions where we respond in real time to questions that come in on email. And we use focus groups with the Project Management teams as well.

I have also set up special task forces to address issues like agile working. And we use a stakeholder engagement matrix to make sure we are in tune with all of our key partners

The Director of Facilities for an Australian public utility organisation:

"I get along well with IT, but not at all with HR. It is very frustrating: we just cannot get any good staffing or headcount data, which obviously makes it very difficult to do any decent space planning. There are no formal committees or processes for involving FM in strategy, or even for doing basic headcount planning"

To explore this issue a bit further, we analysed the survey responses to this question as a function of the respondents' job title. A few minor differences were found between "generic" FM professionals and more senior respondents (Heads of CRE and FM, or Senior Directors). Both groups believe personal relationships are clearly the most important means of assuring alignment, while both groups found formal committees least effective.

However, as Figure Seventeen shows, there were several important differences in how senior FM leaders assess the value of Common Performance Measures and Relationship Managers. The senior executives are far more sceptical about the value of common performance measures, while they actually see formal committees as slightly more important than do their FM professional subordinates.

4.4 Insourcing/Outsourcing Strategies

One of the fundamental questions driving this study was what impact the outsourcing of key CRE and FM responsibilities is having on the strategic role and effectiveness of the FM function. Indeed, we spent more time on this broad topic than any other in the executive interviews. In addition, the online survey included several basic questions about working with service providers.

Which activities are being outsourced?

All the CRE/FM activities under review are listed in Appendix A, which shows for each activity whether it is:

- Managed internally by FM;
- Managed internally by CRE;
- Managed internally by a shared services group;
- Outsourced to an external service provider; or
- Outsourced to a completed outsourcer (that is, one acting as a general contractor)

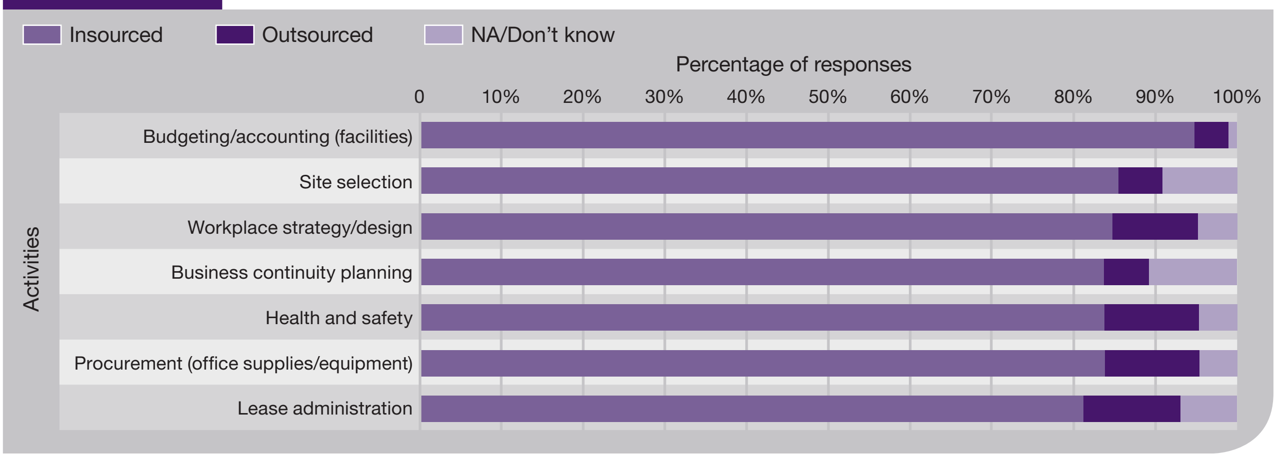
Figure Eighteen shows the top seven *insourced* facilities responsibilities; these are the seven activities that are most frequently retained by the end-user facilities organisation (note: we have simplified this chart from the original more detailed question (described in Appendix A) to focus solely on the broader question of insourcing versus outsourcing).

Note that although *Business Continuity Planning* and *Procurement* (for furniture and office equipment) fall near the bottom of this top-seven list (#4 and # 6, respectively), those two activities are often managed by a shared services group rather than by FM itself; and, like the others in this list, neither of them is very often outsourced to an external service provider.

Sorting the data differently, we also looked at which facilities activities are most commonly outsourced. As Figure Nineteen (below) shows, specialised activities like building cleaning and maintenance, architectural design, and landscaping services are the most commonly outsourced facilities activities. In fact, none of these seven most-frequently outsourced responsibilities are what we would call core business activities. Specialised service providers can usually perform this kind of work both less expensively and at a higher quality than an internal infrastructure group could hope to do on its own.

These findings raise the natural question about how to determine which FM activities should be outsourced, or at least considered for delegation to a service provider.

Figure 18 Seven most frequently **insourced** activities



Several of the Heads of FM who we spoke with simply recommended putting out a Request For Proposal (RFP) to several service providers and letting them identify the processes and activities that they (the service providers) could carry out more effectively and at lower cost than the end-user was currently experiencing.

However, that approach essentially "delegates" the choices to the service provider. One Head of FM for the global research division of a large pharmaceutical company, who was in the middle of negotiating a major outsourcing contract, commented that:

We have spent the better part of a year negotiating the details of our contract with our preferred service provider (we selected the supplier, and then began working out all the hard stuff).

However, I have to remember that once the deal is struck, I am still the one who bears ultimate responsibility for our FM. And one of the key issues I am focusing on with this global provider is which local subcontractors they intend to bring in to the operation in various countries. While I hold the overall provider accountable, I also can't give them too much leeway, or I put my success at risk.

We also spoke with senior FM professionals in several of the global service provider organisations. When we asked how they think about which FM activities should remain under end-user occupier management and which they (the service providers) could do more effectively, one of them responded this way:

It helps for the end-user to have a core engineering group that really knows the organisation's buildings; if you outsource that responsibility the company risks losing its personal commitment to keeping the workplace in good shape.

End-users should also have a facilities manager who is invested what the company needs, and who is involved in all the informal, "inside" (and often confidential) conversations about what's happening in the company. That person can then "translate" that knowledge into requirements for our people to respond to.

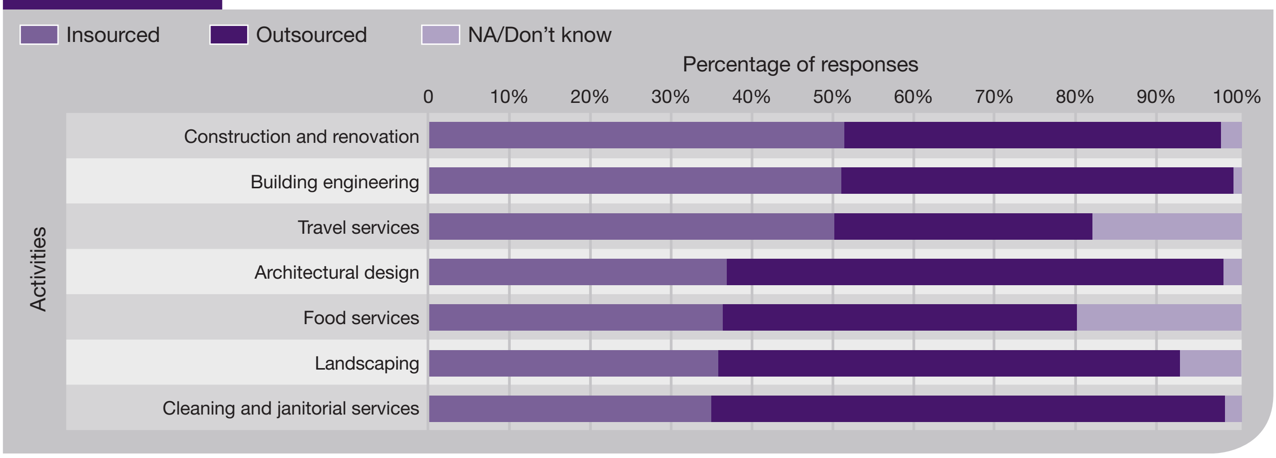
One end-user responded to those perspectives with this comment:

We have to remember that the service providers never stop selling; they are always looking for more opportunities to expand their scope. While many of them do that responsibly, we can never forget that at the end of the day we and they do have slightly different, and somewhat conflicting, interests.

Don't forget that our service providers only know what we tell them; and often we don't share the strategic issues that haven't been worked out; we have to build trust with our service providers, and that takes time.

Certainly both end-users and service providers agree that trust is the critical issue in building a constructive working relationship.

Figure 19 **Seven most frequently outsourced activities**



How do successful organisations achieve that trust? One Head of FM commented that he is "following a pathway similar to the way IT organisations outsourced their data centres in the 1980's."

It takes time to earn trust – time and experience working together. Trust comes from spending time together, from confronting unexpected challenges, from providing open and honest answers to questions, and from making and then meeting specific performance commitments.

Perhaps the most important question to consider when interviewing or evaluating potential service providers/outsourcer is whether the cultures of the two organisations are sufficiently aligned. "Both parties have to want to make it work, and they should share core values about candour, customer service, handling conflict, and valuing staff," as one interviewee put it.

Several people also mentioned the value of third-party consultants, who can act as "match-makers" and facilitators, especially early in new relationships. Their "neutrality" can enable them to provide candid feedback to both of the principals in a negotiation, or even in a committed relationship.

What is the value of turning appropriate facilities responsibilities over to a service provider?

That is obviously an important question, and one that many heads of facilities have wrestled with in recent years. As the CRE/FM industry has matured and evolved over the past decade there has clearly been significant growth in the number and competence of professional service providers in the industry.

The survey data provide some evidence that when major facilities responsibilities are outsourced the head of facilities is able to spend more time on strategy and planning, and less on day-to-day operations. While our analysis at this point is very preliminary, and we make no claim of statistical significance, we believe **there is some evidence that turning over critical responsibilities to a service provider can increase time spent on strategic issues by 10% or more (remembering of course, that a 10% time gain is the equivalent of half a day a week, or two days a month, a not-insignificant amount of time on a senior executive's calendar).**

Our conversations with senior facilities executives bear out this observation. Of the more than thirty firms we spoke directly with, it is clear that the ones who are doing the most outsourcing are also the ones where FM is playing the most strategic role.

We also noted that outsourcing is less common in Asia than in other regions, presumably because the service provider industry is less mature. While there are local service providers for basic operational activities like building maintenance and landscaping, there is a paucity of project management and higher-level planning services.

Here is the way one head of FM in China described his organisation's approach to outsourcing:

We have outsourced some FM services function to third-party vendors directly, such as security guard services, cleaning services, cleaning services, planting services, and so on. Locally in China we have not yet engaged any professional/global FM Service provider to centrally manage our office premises. However, we engage certain service contractors directly, with different vendors for different offices; most of the vendors are from local markets.

4.5 Top Issues Facing FM

There was one open-ended question in the survey: "What are the top five issues/challenges facing facilities management in 2012?" **We received close to 1500 separate responses to that one question!** We have not conducted a comprehensive content analysis of those responses.

However, the following seven concerns are clearly "top of mind" for FM professionals and executives:

Cost control/reduction. This issue was without question the most frequently identified topic of concern. Indeed, well over half of the respondents mentioned cost reduction/cost pressures as their first or second major challenge.

Generating recognition and understanding of FM among senior management. This too was a frequently mentioned challenge. While many FM functional groups have yet to succeed at getting senior management acceptance or basic understanding of the strategic potential of facilities, at least the FM professionals know that doing so is one of their most important priorities.

Adapting to new ways of working/alternate workplace strategies. This challenge was also mentioned by many respondents. It is seen as a multiple-dimension challenge: it involves developing new workspace designs, overcoming management resistance to new programs and policies, and achieving the broader changes in organisational culture required to gain acceptance across the entire workforce.

Attracting and developing FM professionals. There is widespread concern that the talent pool of current and future FM professionals is far too small. Recruiting younger workers to enter the field is increasingly difficult, and there are also concerns that many junior FM specialists are deficient in the basic skills required for success. The deficiencies mentioned most frequently were quantitative analytic capabilities, team leadership, establishing effective personal relationships, and listening/communication skills.

Carving out enough time for strategic thinking and longer-term planning. This challenge is of course completely consistent with responses to other survey items, and with the extended conversations during the executive interviews. The real-time nature of FM means that day-to-day operations almost always take precedence, crises must always be addressed immediately, and the urgent all too often drives out the important.

Working with service providers. As noted elsewhere in this report, the facilities industry is highly dependent on external service providers of all kinds, and that dependence is growing rapidly. This challenge was mentioned frequently, but not because the working relationships are strained or because there is concern about the service provider capabilities. Rather, we believe it is simply becoming a more central part of normal FM. In addition, the first year of engagement with a new service provider is always particularly challenging, and we believe those first-year experiences are consuming many FM executives' time and attention.

Achieving sustainability goals. There is widespread recognition of the importance of improving the environmental efficiency of the facilities portfolio. This is particularly true among organisations with an aging, inefficient portfolio. However, given all the other pressures being imposed on FM, sustainability appears to be one of those goals that feels elusive to many professionals.

Several heads of FM in Asia offered insightful comments about the importance of focusing on sustainability goals rather than pure cost control:

I believe FM should be more about 'sustainability' and not (just) about cost reduction. Sustainability is becoming more relevant for MNCs no matter where they are based – especially as the benefits are commercialized.

I actually think FM should be 'attached' to Sustainability and the Environmental/Green part of the business, as it is focused on operating more energy efficiently. FM is more related to Sustainability than CRE.

4.6 Summary of Executive Interviews

As noted at the outset, we also conducted hour-long in-depth interviews with senior real estate and facilities executives from more than thirty major organisations (most were commercial enterprises; one is a government agency, and one is a semi-public power and water utility).

All but two of the organisations we spoke with operate globally. About eighteen of the organisations operate in the broad financial services industry (including banking, insurance, credit cards and credit reporting). Three are in health care; three are in high-tech hardware and software development and, as noted, one is a government agency and one is a regional power and water utility.

Our questions related almost exclusively to the management of office buildings; while some of the interviewees do support manufacturing, distribution, and retail facilities ***we stayed focused on the support of knowledge workers*****.**

The interviews addressed essentially the same issues, challenges, and management practices that the survey emphasised. However, we were naturally able to go into much greater depth and nuance than the limited survey items allowed.

Relative to the survey respondents, the executives we interviewed generally represented organisations that are larger, more global, and more mature regarding FM. We also believe they make greater use of service providers, and consequently are able to spend more time on business and facilities strategy than the average FM professional.

The following themes reflect the conversations with those senior executives:

1. **Outsourcing, often initiated for cost control purposes, also enhances FM capabilities and performance.** More importantly, it frees up the senior FM staff to focus much more effectively on longer-term planning and strategic issues. While not yet as widespread as it should be, outsourcing is a rapidly growing practice that promises to help FM operate much more strategically in the long term.
2. **Almost all FM organisations in MNCs are located either inside a CRE function, or report to a senior financial executive.** Again, the practice severely constrains FM's ability to operate strategically. The function gets far too little visibility with senior line management, and its potential for contributing to workforce productivity and organisational effectiveness is poorly recognised and underappreciated.
3. **Most organisations rely on very traditional, financially oriented performance measures to assess facilities.** More operationally oriented measures of service levels achieved are also in widespread use, as are measures of efficiency like square feet/metres per employee. In combination these metrics severely limit FM's ability to operate strategically. There is only scattered and secondary attention being paid to the impact of the workplace on workforce productivity, innovation, collaboration and attraction/retention of staff.
4. **FM is reasonably well-aligned with most other important parts of the business – except for HR.** That weak alignment with HR (accompanied by a generally weak working relationship) has serious consequences, both for the business as a whole, and for FM in particular.
5. **The most effective facilities executives commit significant amounts of personal time to nurturing relationships with their key customers.** They recognise the personal relationships are far more critical to their success than more formal coordination mechanisms like committees, task forces, and explicit liaison roles. Credibility and acceptance as a legitimate contributor to the business affords an FM leader with access to the C-Suite and creates numerous opportunities for "teaching" others about the value of FM and how to assess its performance.

5.0 Recommendations

There are no short or simple actions that any individual FM professional, or even the international associations (like RICS, IFMA, CoreNet Global, and others) can take to resolve, or even to confront, all these challenges.

It will take many years, and major improvements in management practice, to bring FM into the strategic conversation on a general basis.

However, every long journey begins with a few simple steps. This research, in combination with the experience across our global Occupiers Journal team, we believe the following principles will go a long way towards "raising the bar".

5.1 Think strategically

It may sound simplistic to suggest that people just think "strategically". However, thinking strategically means focusing on competitive advantage, as outlined at the beginning of this report. And when Heads of Facilities focus on helping their companies establish competitive advantage, they are paying attention to – and even helping shape – business strategy.

Thus, our **first recommendation for action is that Heads of Facilities learn how to think strategically.** That means developing a deep understanding of the business they are supporting, its customers, and its competitors. In addition, strategic thinking includes understanding how to develop financial models, how build and analyse alternative future scenarios, how to see "over the horizon", and how to link causes and consequences in areas as diverse as HR, IT, Finance, Operations, and even Marketing and Procurement.

But the most important strategic mindset is to understand how and why customers make purchasing decisions. Do they select the organisation's products and services because of cost, quality, or service? And how are those customer choices influenced by real estate and facilities strategies and day-to-day experiences? When Heads of FM can answer those questions, and translate them into action priorities for their staff, then they are thinking – and even acting – strategically.

5.2 Act strategically

Strategic action begins with strategic thinking. But thinking is only the first step. When a Head of FM behaves strategically, he is spending more time on the future than on the present – and she is focusing her staff's attention on business issues. She/he develops and applies measures of FM impact not only on the bottom line (which of course can be very strategic), but also on performance outcomes like talent attraction and retention, staff productivity, the Triple Bottom Line, community recognition, and even broader metrics like brand recognition, market share, and net profit.

5.3 Rebuild the FM organisation and its role in the business

Along with, or even preceding, thinking differently, the Head of FM must take several basic, short-term actions that will help to free up his or her time to focus on more strategic issues.

First among these is to develop a strong layer of operational management within the existing FM organization. Recruit subordinates with strong FM *and* management experience; be willing to bring in strong managers even if their FM-specific experience is weak or non-existent.

Look for individuals with strong financial and measurement backgrounds; build management control and planning systems that monitor service levels, costs, and end-user satisfaction on a frequent and recurring basis. Above all, insist that measurement systems focus on *outcomes*, not on FM activities as an end in themselves.

Second, focus the FM team on defining (and enforcing) policies and practices that define the role of FM in supporting the business. Make defining those policies an early priority, and then socialise them with the business at large.

While we believe in outsourcing and making extensive use of service providers (see the next section), outsourcing is not a way to overcome or replace a weak FM team. Indeed, it is important to strengthen the FM operational capability *before* turning the activities over to a service provider.

Finally, Heads of FM (and their direct reports) should strive to spend at least 50% of their time working with their peers in other infrastructure functions. Focus first on FM's "customers", understanding their needs, and their current work patterns and frustrations, before attempting to anticipate their future requirements.

5.4 Outsource operational activities

As is clear in the body of this report, we believe that the pathway to making facilities management more strategic depends on moving a significant portion of the tasks and responsibilities associated with FM to external service providers.

That approach to FM frees Heads of Facilities and their immediate staff to focus much more on long-term planning and strategic challenges (both FM-related and business-focused). Among the organisations we interviewed, those that were clearly operating more strategically (and were recognized as a strategic resource by their senior business executives) had outsourced far more of their operational activities than the organisations in which FM was struggling to get resources and recognition.

Outsourcing to a reputable and capable service provider also makes it much easier to define accountabilities and impose financial incentives (and punishments) for failure to meet performance goals. While managing an external service provider introduces many new challenges, the process of negotiating a contract that is fair to both parties forces not only the head of FM but his/her colleagues in Finance and other business leadership roles to make their expectations and objective explicit.

As we discussed in the body of this report, outsourcing has several hidden and secondary – but nonetheless critical – benefits. For one thing, an outsourcing arrangement moves most of the staff management and career planning responsibilities out of the FM group and on to the shoulders of the service providers' team. For another, it clarifies responsibilities and performance metrics, not just for the Head of FM but for the entire occupiers' executive leadership team.

There are two primary benefits that come with outsourcing: first, the application of a focused team of FM professionals that is fully accountable to its client; and, second, the opportunity for the in-house FM team to focus its attention on business strategy and strategic alignment needs.

5.5 Teach the business how to ask for FM support

We also believe one of the most critical activities for a head of FM is to educate his/her senior business executives and functional colleagues about how to work with FM. That is, FM is most successful when business leaders know how to define their FM requirements, establish FM performance goals beyond simple financial measures, assess FM outcomes, and plan ahead to ensure that their facilities do in fact help create strategic advantage.

In other words, effective heads of FM do ***not*** buffer their business counterparts from the details of FM; they actually do just the opposite. They take every opportunity to help their clients understand the strategic role of facilities, and they ensure that facilities and workplace design issues are part of every strategic conversation.

We cannot stress enough the importance of identifying critical FM success measures (descriptions of success – not to be confused with the ubiquitous and often less than useful 'KPI') that establish the connections between FM performance and business performance. These measures must be defined in business terms, not FM technical considerations.

There is no better way to educate the business about FM and its strategic impact than frequent conversations with senior business executives about FM's performance, grounded in language and frameworks that those business leaders understand and embrace.

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6.0 Useful Publications

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7.0 Acknowledgements

This report lists just two authors (Jim Ware and Paul Carder), but it is actually the collaborative product of a globally distributed team. We include in that team not only our two fellow directors at Occupiers Journal Limited (Marcus Bowen and Al Chalabi), but also our regional partners on four continents, the research staff at RICS, the nearly four hundred respondents to the survey, and – most importantly – the three dozen heads of FM and their staff professionals who so generously contributed their time and their insights to our learning.

We also want to acknowledge and thank in particular Dr. Clare Eriksson, Director of Global Research and Policy; and Johnny Dunford, Global Commercial Director, both at the Royal Institution of Chartered Surveyors (RICS). As soon as they learned of this effort Clare and Johnny not only recognised its importance to the FM profession, but they offered the global resources of RICS to help promote the research, to review and critique our analysis, and now to share our findings and recommendations with RICS members and other FM professionals around the world.

Thank you all for believing in us, and for your commitment to advancing the FM profession.

8.0 About RICS

RICS is the world's leading qualification when it comes to professional standards in land, property and construction.

In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining RICS status is the recognised mark of property professionalism.

Over 100,000 property professionals working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members.

This report represents part of a suite of activities in 2012 – 2013 in which RICS demonstrates the value of its members' professional expertise to business.

Across the real estate world whether corporate real estate, FM, valuation or agency and brokerage the real estate profession is well recognised as a fundamental "added value" activity to corporate occupiers, investors and landlords alike.

RICS will continue to work closely with real estate providers, international and national bodies, regulators and governments around the world to promote the value of the profession and its intrinsic role in efficient operations.

This report helps RICS instil a coherent approach to the full spectrum of commercial property. We seek to engage actively with, and share the views and best practice of, the CRE and FM industry as a whole in order to ensure that our products are well received and satisfy real market needs.

Our conversations with leading real estate professionals, whether members or not, along with key bodies and institutions around the world are based on gathering market intelligence spotting trends, identifying best market practice and commissioning industry guidance research and thought leadership.

Over 2012 – 2013 the key activities of the RICS Commercial property professional group in collaboration with industry key players are:

- Development of International Standards
- Accreditation of Corporate Real Estate professionals
- The launch of a suite of global Facilities Management industry guidance
- Global Real Estate Agency and Brokerage industry guidance
- Global Property Management industry guidance
- Training, conference and educational systems to support the standards and guidance
- A research programme that seeks to identify solutions to market trends

9.0 About Occupiers Journal Limited

Occupiers Journal Limited (OJL) is a global learning and development organization serving real estate and facilities management (FM) "end users" with whom OJL engages and cross-shares data, knowledge, experience, and case studies with other occupiers in a confidential environment.

In addition to producing original research like this report, OJL also publishes a free monthly newsletter providing information about FM and workplace events, professional development, and "postcards from the edge", a round-up of news and insights from thought leaders around the world.

We also publish a quarterly journal, **Work & Place**; and, in collaboration with our regional partners on five continents, we host local roundtables focused on issues of concern to senior FM and workplace professionals.

OJL is committed to producing practical, action-oriented guidelines for improving FM business effectiveness as well as the profession as a whole.

Our primary objectives are:

1. **Make Facilities/Workplace Managers More Effective.** Address the challenges managers face when tasked with coordinating HR/IT/CRE/FM to deliver alignment across corporate strategy, strategic business units, service providers and the workplace.
2. **Improve Senior Management Buy-In and Support for Facilities Management.** Communicate to senior management the business value and benefits of initiatives designed to deliver an effective workplace.
3. **Create Powerful Functional and Business Unit Relationships.** Develop more productive business relationships between the central service function and strategic business units.

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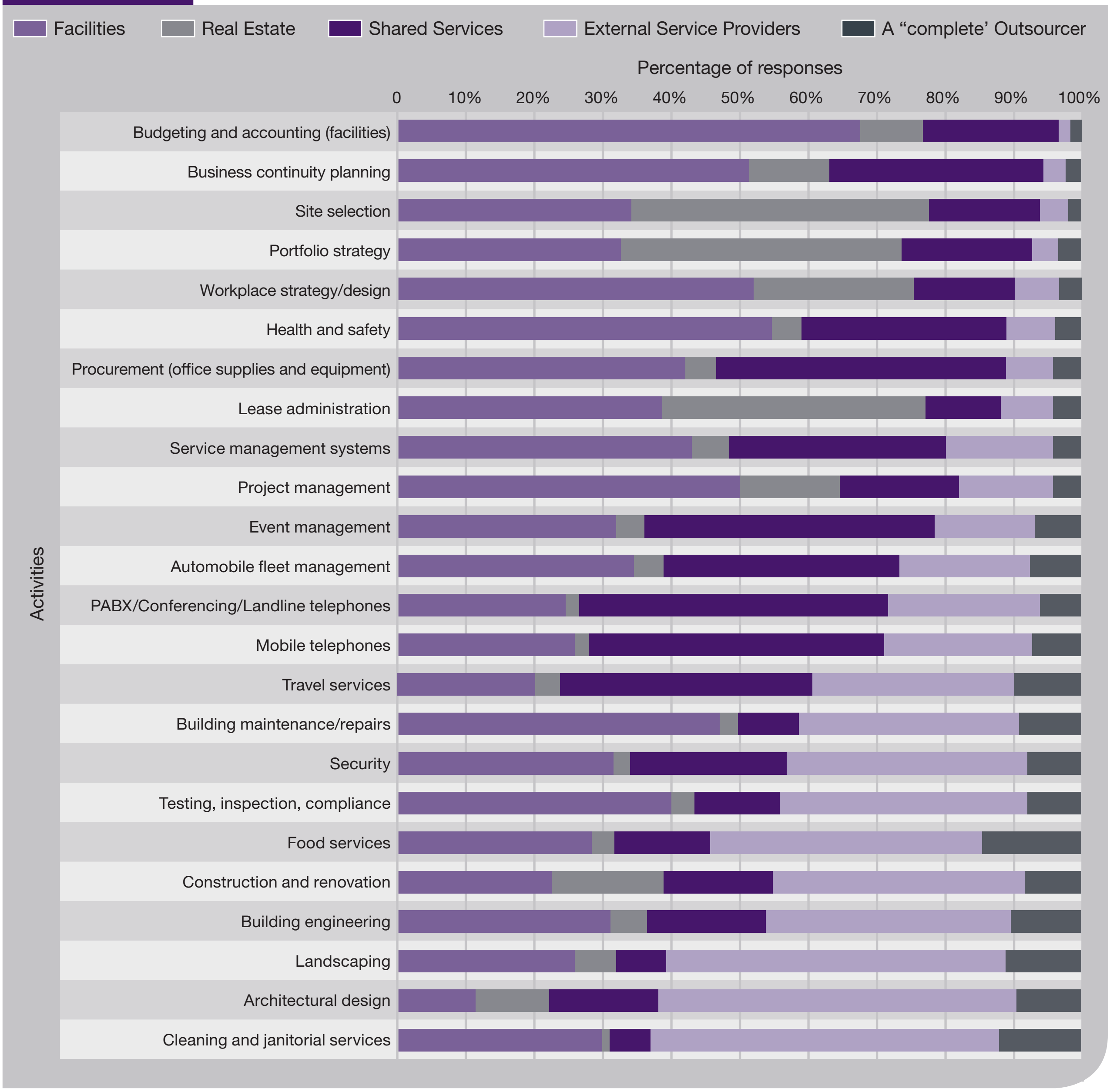
Figure 18 Seven most frequently insourced activities



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