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Leadership and Influence in FM: What business wants and how it can be achieved.

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Introduction

What factors can position FM within the boardroom? What do senior executives and users really want from their facilities and facility managers?

Today, if a facility manager measures his or her worth by an annual budget only, he or she is more likely to be outsourced. Focusing on those actions which add value to a product or service can help to identify all the other actions which only add cost or little value: anything which adds cost without value should be eliminated.

Leadership and influence in facility management comes by those who understand what drives the business they serve, furthermore, who communicate the value in terms that shareholders and users understand and appreciate.

Leadership and Influence

Leadership is one of the oldest and most well covered topics in management literature. Leaders have been prominent in society since the beginnings of human civilisation. But the difference between leadership and management is not clearly understood.

The FM industry has defined what it means to be a leader in FM. The Facility Management Accreditation System defines three categories of Facility Accreditation. Category 3: AFM 3 is about leading the practice of FM.

At the time of writing 31 facility managers are currently accredited at AFM 3 level in Australia:

Qld - 4
VIC - 8
NSW - 12
SA - 4
WA - 1
ACT - 1
TAS - 1

Key characteristics of AFM3 Leaders in Facility Management include:

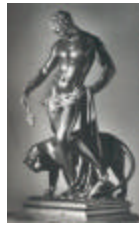
- Leads the practice of FM
- Directs the full range of FM functions in the organization
- Senior management level
- Works with a great deal of independence
- High level of authority at a nationally or globally
- Significant strategic influence
- Responsible for strategic staff development and training/coaching
- Input into improvement/ change initiatives as a change agent and leader of change
- Contribution to FM profession is significant and ongoing.

Leadership is about defining a vision and empowering others to manage and achieve this vision.

Business guru, Charles Handy¹ defines four types of leadership styles that best align with four different organisational cultures.

Personal Style

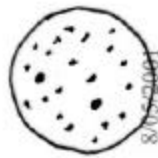
The leader:



Dionysius
God of Joy and Theatre
Personal Style

Example: Lyn Arnold, CEO World Vision

The Culture:



People Culture
Consensus decision making
Community of individuals

Problem Solving

The Leader:



Athena
The warrior goddess
Problems solved at source

Example: Bill Gates, CEO, Microsoft

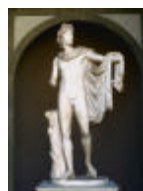
The Culture:



Task Culture
Adaptable to change
Innovative/Creative
Team Oriented

Logic and Rationality

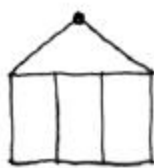
The leader:



Apollo
The god of reason
Rules by Logic & Rationality

Example: Don Argus, Chairman, BHP Billiton

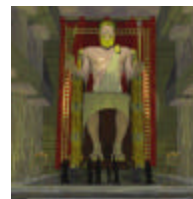
The Culture:



Role Culture
Bureaucracy
Economies of Scale

Whim and Impulse

The Leader:



Zeus
Rules by whim and impulse

Example: Lindsay Fox, Lin Fox

The Culture:



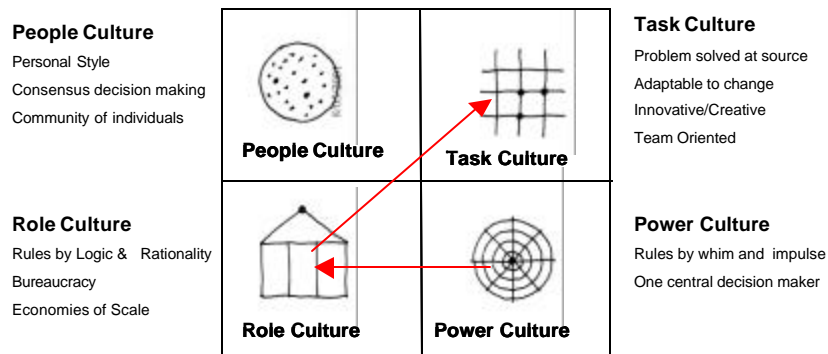
Power Culture
One central decision maker

According to Handy, leadership styles adapt to change, both in what is done and how it is done, according to the prevailing culture. The question is whether the culture is driven by the leadership style, or the leadership style is driven by the culture.

¹ Handy CB. Understanding Organisations (Penguin, 1985) pp 185-221

As organizations change and grow it is necessary for leaders to adapt their style to suit the changing business. This is where leadership needs to become more nimble. The transition phases of leadership are illustrated in the diagram below:

Changing Organisational Culture



When an organization starts up, it is common to lead by whim and impulse which reflects the style of the founders. As the organization grows, the leadership style must adapt to a hierarchical or bureaucratic structure. The leaders must adapt to this change by empowering others to lead, establishing rules by logic and rationality. Eventually the organization becomes too bureaucratic and slow to embrace new innovations and changes. At this point in time the organizations experiments in a matrix style structure particularly among its corporate leaders.

Difficulties faced by leaders adapting to this change is highlighted by the recent change of the guard at BHP Billiton. Brian Gilberton was a founder of Billiton, the South African mining giant. He was described as brash, aggressive and autocratic but was hugely successful as a leader and manager. When Billiton merged with BHP, Gilberton found himself immersed in a culture which was very different. The leadership style did not fit and the board decided he had to go.

Leadership and Influence in Facility Management

In preparation for this presentation I spoke to three 'influential' leaders in FM from different industry sectors:

- Sam Ragusa: Griffith University (Qld)
- Franklin Trouw: Department of Primary Industries (Vic)
- Sharon Nowell: Hewlett Packard (NSW)

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I use the word influential because all three have achieved multiple FMA awards and or high levels of peer recognition within the FM industry. I asked them to respond to the following questions:

Q. How would you describe your leadership Style:

- SR "Inclusive....I get people involved so that they buy in and own the decisions"
- FT "Strong focus on People management and communication with staff and clients, as well as having a vision for the future"
- SN "Consultative, people focused, strategic focus"

Q. What personal skills or competencies have contributed most to your success?

- SR "Finding the best person for each job – no one can be good at everything. I bask in the glory of the success of others in my team and everyone benefits."
- FT "Communication and negotiation - being able to listen and having closure on projects"
- SN "Decisiveness, ability to see the big picture, 'get the job done' attitude, customer focused"

Q. What do you believe is the key issue for facility managers in influencing executive decision making?

- SR "Know your subject – even if work is done by others. Couch it in a language they understand, how it will be good for business - teaching and research. Research Data accumulated. Without data one cannot convince others."
- FT "Engage senior executives so they understand issues and how they affect bottom line performance - not just dollars but functionality, people etc."
- SN "FM'ers have to book themselves time to present at executive meetings - they can then present achievements and objectives, so that the exec team understand what the FM team has contributed to the success of the business and what the team intend to focus on moving forward."

A central theme among the three influential leaders interviewed are as follows:

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1. Envision and communicate the vision and win commitment from the team
2. Identify one's own weaknesses and surround yourself with people who bring strength to the team
3. Leverage quantitative data to frame arguments to senior managers in terms that they understand and value
4. Reward people for supporting the vision and leading the transformations and initiatives required.
5. Promote and market achievements internally with evidence of peer recognition.

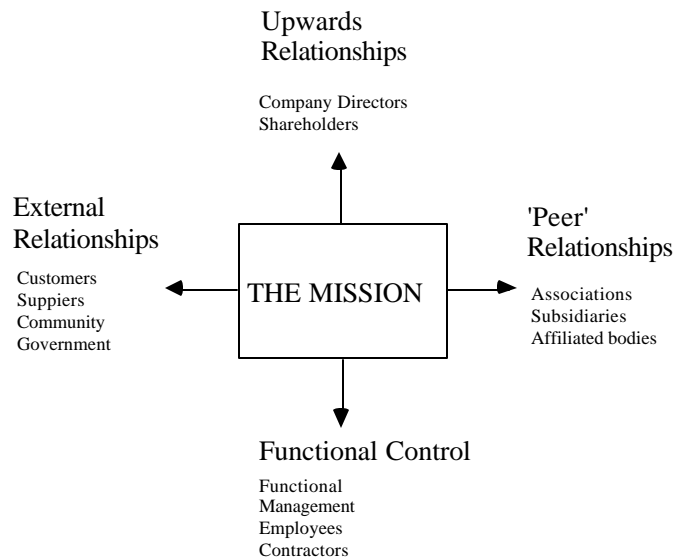
Both leaders work within large mature organizations. They have adapted their personal leadership styles to suit their own team cultures, as well as that of their senior managers.

Use of Organisational Understanding to Manage Facilities

Leadership in Facility Management requires a 'top down' view of the organisation starting from the mission statement as stated in the business plan. This is followed by aligning facilities and facility management to best support these business goals – in effect creating a vision.

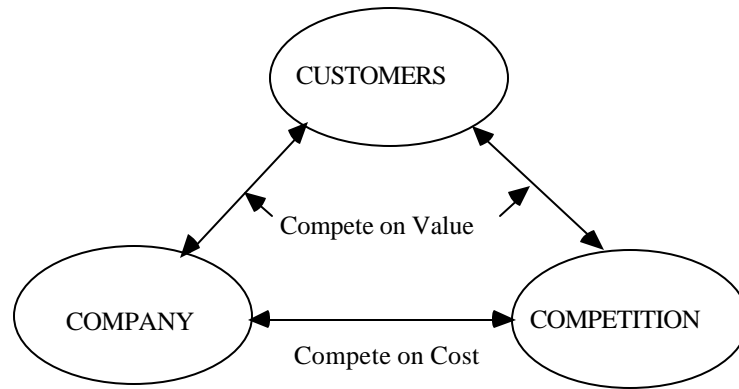
To identify the forces which drive facility management performance we firstly need to define the overall purpose and direction of the organisation. The mission statement expresses the organisation's purpose and the scope of the business. Its function is to provide a high level strategic direction which acts as a guide for all lower level decisions and actions. Its importance and strength lies in the fact that it finely balances the relationships and conflicting needs of key stakeholders.

Diagram 2. The stakeholder conflict



The business plan defines how the organisation is to position itself within a competitive market place and how it will compete. The type and scope of quality which will be required to compete successfully will depend on the organisation's distinctive competencies, competitor strategies and customer values.

Diagram 3. Customer vs. competition based strategies



To identify how facility management adds value for the organisation we must consider how it fits into the organisation as a whole. Associating facility characteristics with value activities helps facility managers to identify sources of, and opportunities for competitive advantage.

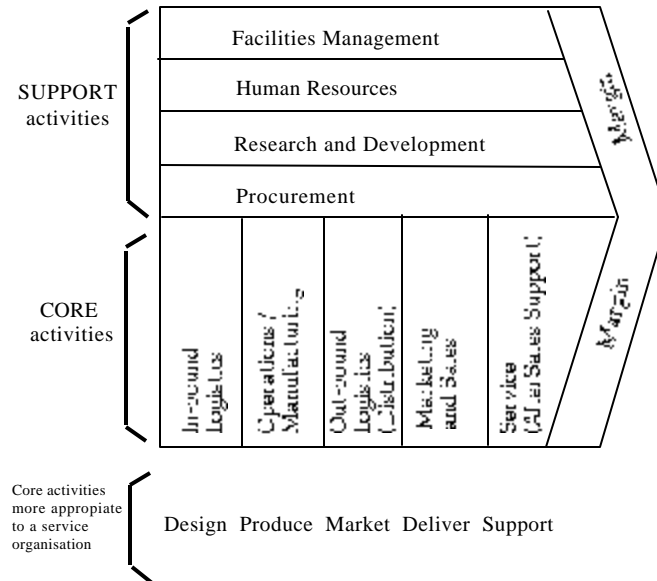
Linking Facility Planning and Management to the organisations value creation and business performance is not a new idea. Michael Porter² talked about value linkages within organisations as early as 1985.

Michael Porter argues that linkages between activities can be vital in adding value and in creating competitive advantage. His model works on the principle that the value contribution of a chain of activities is greater than the sum of each individual contribution. Linkages also extend outside the organisation, with suppliers and even customers.

Diagram 4 illustrates a simple Value Chain which classifies value activities into two main types, core activities and support activities. Linkages between activities can be vital in creating competitive advantage.

² Porter, M. E. *Competitive Advantage: Creating and Sustaining Superior Performance*, Free Press, 1985.

Diagram 4. The value chain



How Facilities Support Business Operations

The fundamental question is how can the facility, or facility management contribute to the success of the business, and what KPI's do we need to ensure we add more value for less cost. Some examples of how facilities support business are as follows:

- **Customer relations:** How can facilities satisfy internal and external customer needs (perceived or actual)?
- **Innovation and strategy:** How can facilities support product innovation and sustainable competitive advantage?
- **Responsiveness:** How can facilities improve 'cycle times' in response to the changing business environment?
- **Cost and reliability:** How can facilities reduce the cost of a product or service and reduce levels of risk?

Customer Relations

By customers I refer to both internal and external customers. For external customers, improved customer relationships can impact on their decision to purchase and or what they are prepared to pay for a product or service. For internal customers, staff and management, satisfaction can reduce turnover and improve morale, which in turn can reduce training cost and/ or generate increased revenue.

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Facility attributes, which drive customer relationships include:

- Brand / Culture Recognition and Awareness
- Accessibility and Convenience
- User comfort and satisfaction

Strategy and Innovation

Organisations who are attempting to break into new markets, or simply fight off global competitors are increasing their efforts to develop innovative new products, which provide competitive advantage, and bigger margins.

Facility attributes, which drive strategy and innovation may include:

- Space as a catalyst for strategic change
- Space as incubators for innovation
- Create entry barriers for competitors

Responsiveness

How quickly an organisation can respond to the changing business environment is the final frontier of business performance. The pace of change is ever increasing, and organisations that can restructure, expand, contract most quickly will have a strategic advantage in terms of capturing market share and revenue generation.

Facility attributes, which drive responsiveness, include:

- Level of user control / mobility
- Layout versatility
- Component flexibility / modularity
- Type of space
- Contingency Space

Cost and reliability

Throughout the past decade, organisations have been examining their use of space more carefully to reduce occupancy costs. Typical examples in the office sector include re-negotiation of leases, space intensification, teleworking and hotelling. Effectively, the lower the facility costs the lower cost of providing product or service:

Facility attributes, which drive cost and reliability, include:

- Reduced cost of churn³
- Reduced capital cost
- Reduced occupancy costs
- Reduced exposure to risk

³ 'Churn' is a term used to describe internal rearrangements undertaken by organisations to better accommodate their changing organisational and functional requirements

Influencing Executive Decisions

Key to influencing facility decisions at executive level is whether or not money invested could generate a better return if invested elsewhere. Before we invest in new space we must ask ourselves whether we can obtain a better return on assets through divesting our facility capital into other core-business related investments. The key determinant is the Weighted Average Cost of Capital, which is the charge you apply for the use of funds.

The weighted Average Cost of Capital will vary from business to business and will take account of the level of risk, and the extent to which the organisation must provide a return to shareholders as opposed to simply paying interest to a bank. For example, within the IT sector, a project might not see the light of day unless it can achieve a return of at least 25%, whereas within the finance sector a return of 13% is more common. A tool which is now widely used globally is “Economic Value Added” (EVA). In very simple terms it measures the total profit in any given year less a charge for the amount of capital employed. If the result is positive then Economic Value is created.

This can be expressed in the following formula:

$$\left[\text{Revenue Gain } \$ + \text{Cost Saving } \$ \right] - \left[\text{Project Cost } \$ \times \text{Cost of Capital } \% \right] = \text{Economic Value Added}$$

Understanding how space can generate revenue and cost savings, and generate a return over and above the Weighted Cost of Capital is the key to measuring Economic Value.

Case Study – In-House vs Outsourced

Resource were recently engaged to evaluate the performance of an incumbent facility manager service provider for an organisation occupying approximately 14,000m². We interviewed representatives from each department and asked them a series of questions about their organization, needs and expectations. The culture which we defined was largely a reflection of the leadership style of the Chief Executive – A strong People Culture with an Athena leadership style.

The Facility Management service contract was up for re-newal. However we found that there was a mis-match of cultures between the service provider and the client organization which might be the reason we were called in to evaluate the process.

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To our astonishment the external service provider was not aware of the mission, goals or objectives of the client organisation or the user departments. A large number of User representatives from each department throughout the client organisation had either never heard of the external service provider or were not aware of the services they provide!

As this particular FM service provider is not active within the FMA they were unaware of the Facility Management accreditation guidelines to which I promptly referred them to, in particular :

Unit 1: Use Organisational Understanding to Manage Facilities
Unit 2: Manage the Delivery of Services

I suggested to the client that they should expect their outsourced FM contractor to seek to have their staff accredited in future.

Whether this situation was a result of poor management or poor leadership is uncertain. What is certain is that facility managers must leverage organisational understanding and services managed in line with customer and user requirements. This is best done in-house rather than by an outsourced service provider.

Managing the Delivery of Services In Line with Customer and User Requirements

In addition to the 'top down' understanding of organizational needs, leadership in Facility Management requires a 'bottom up' view of the organisation including the customer, user and the facilities which support them. Facilities and services are defined and weighted according to how they support both the organization and the users. This forms the basis of the Facility Plan.

This means looking at the Facility management services from a user point of view, tailoring the services to support stated organizational goals and identifying improvement priorities.

How well facility management supports an organisation is a value judgment as perceived by building users. The customer value criteria table below provides a framework to help analyse facility characteristics which could influence customer perceptions.

Diagram 5. Customer value criteria

USE		SIGNALLING
TANGIBLE	INTANGIBLE	
Responsiveness	Style	Furniture & Fixtures
Storage	Prestige	Colour & Finish
Flexibility	Image	Technology
Cleanliness	Friendliness	Layout
Accessibility	Interaction	Location
Privacy/Security	Comfort	Rent/Cost
Condition	Control	Floor Area
View	Productivity	Housekeeping
Adjacencies		Cycle Time

Once we understand the organisation's purpose, scope of business, distinctive competencies and customer value criteria, we are then able to identify the facility management "Critical Success Factors".

Critical Success Factors are those value drivers necessary to achieve the mission. They are the criteria used for measuring effectiveness and identifying improvement priorities. Each Critical Success Factor is of equal weighting and is established by the management team responsible for the activities under review.

Some sample Critical Success Factors identified on a recent management review are as follows:

- * Quality Output
- * Personnel Development
- * Client Development
- * Group Interaction
- * Intellectual Property Development
- * Productivity
- * Profit / Financial Targets

By evaluating facility management performance against these pre-defined Critical Success Factors we are able to identify opportunities for improvement which offer optimal benefits for the organisation as a whole. Resource has termed this process "Strategic Quality Management".

Strategic Quality Management output is very concise and action oriented. It identifies processes which have the greatest impact on business performance and ensures that business objectives are carried forward into selecting improvement priorities.

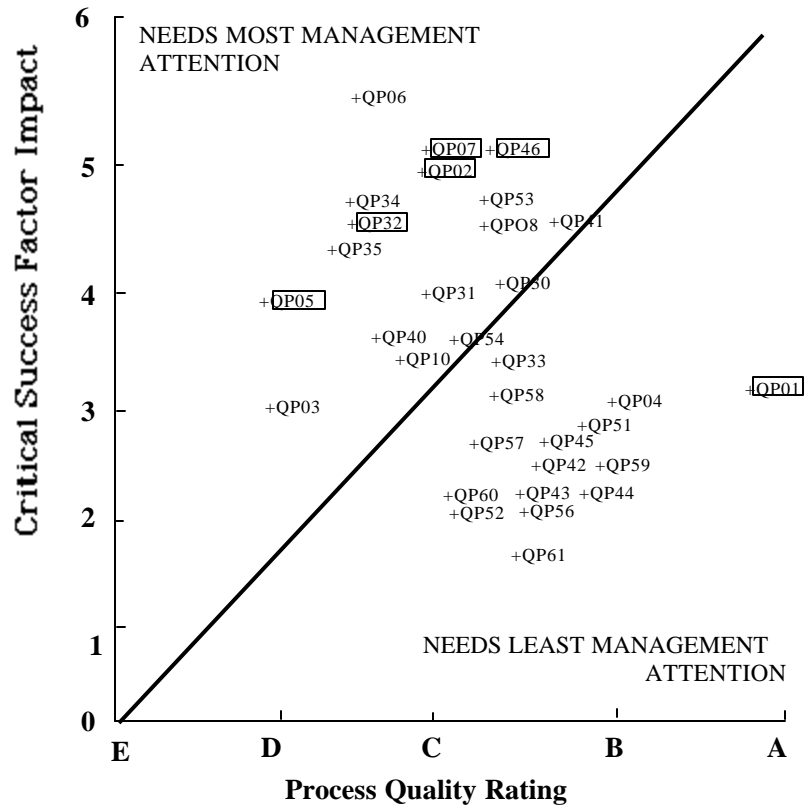
Diagram 6 illustrates a hypothetical facility design and management operation. Value activities are listed down the left column. For simplicity I have limited the number of activities to five. In reality each activity would be broken down into a number of individual processes. Along the top row I have listed the Critical Success Factors. The objective of this table is to measure the impact of each process on performance (Critical Success Factor Impact) and judgmental performance of each process as perceived by the customer (Process Quality Rating).

Diagram 6. Process quality management

PROCESS	CRITICAL SUCCESS FACTOR						Critical Success Factor Impact	Process Quality Rating
	Quality Output	Personnel Development	Client Development	Group Interaction	Research and Development	Productivity		
QP01 Design	✓					✓	3	A
QP02 Produce	✓			✓	✓	✓	5	C
QP03 Market			✓	✓		✓	3	D
QP04 Deliver		✓				✓	3	B
QP05 Support	✓	✓	✓		✓		4	D

The results of the evaluation above can be illustrated graphically in Diagram 7 below. From the illustration we can identify the processes which require most urgent management attention. The most critical processes are those with high impact on Critical Success Factors and have a low Performance Quality Rating.

Diagram 7. Performance summary grid



Where an activity is a major consumer of facility management resources we have placed it within a rectangular cell.

Actual improvement projects will need to be considered by the management team having regard for the costs and benefits offered, and the capability of employees to implement them.

If NPV of the tangible costs and benefits is positive then investment to improve quality is worthwhile. If negative then we need to consider sensitivities to uncertainty (risks) and weigh intangible benefits against shortfall in NPV. Results can be compared with other projects on financial and non-financial grounds.

Measuring Performance

Several performance measurement tools are often referred to in FM literature including 'the balanced scorecard' the 'dashboard' which set out tangible and intangible performance measures which can be regularly measured and monitored. Facility performance measures within the office sector have largely focused on tangible cost measures such as space efficiency and occupancy cost. However, it is now possible to measure



intangible factors as organisations become more aware of the impact facilities have on business performance.

Such performance measuring tools can require extensive and accurate data collection and recording, and considerable investment. One way to reduce the cost of these tools is to weight each performance measure according to the number of Critical Success Factors it supports. Performance Indicators which rate highly, and cost little to measure are measured and reported in the usual way. Other measures can be measured intuitively by a facility committee representing the broader facility users.

Case Study – Measuring the Impact of Intangible Costs

A client organization was looking to consolidate its national portfolio of office space. Cash flows were prepared and properties shortlisted for consolidation or disposal. One property had been highlighted as a prime target as the building was heritage, extremely inefficient and expensive to occupy. We had established that if the organization sold the building and moved elsewhere an internal rate of return of over 100% could be achieved!

Costs often overlooked in evaluating performance are those which are not planned over the life of the forecast period, in particular the cost of churn .

The table below illustrates how Resource Architecture was able to rank in order of priority projects by 'Payback' and 'Internal Rate of Return' over ten years. Interestingly, returns of over 100% on investment are not uncommon once the cost of churn has been taken into account.

Building	Total Annuity (June 1999)	Payback Period	Saving over ten years (actual)	Net present Value (NPV)	Internal Rate of return (IRR)
Building A	\$50,473	2 years	\$528,616	\$308,251	103.84%
Building B	\$182,359	2 years	\$1,861,047	\$1,064,865	82.19%
Building C	\$541,458	2 years	\$5,442,210	\$3,078,202	73.39%
Building D	\$18,620	2 years	\$186,455	\$105,161	71.54%
Building E	\$103,710	3 years	\$980,915	\$528,118	51.83%

Any investor would give anything to invest in such a proposal. However, when the proposal was finally put to the executive management, the executive management chose not to proceed on the basis that they had occupied the building for over 100 years and it symbolized their continuing

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support of the City's heritage environment. The value of the property to the organization had never before been realized or measured in this way before. It highlights the importance of balancing tangible and intangible benefits.

This simple Discounted Cashflow technique is one which can test whether to proceed with a project based on cost. But unless intangible benefits can be included opportunities may be overlooked altogether.