RE-ENGINEERING A CORPORATE REAL ESTATE SERVICES ORGANIZATION
Part III: Governance

March 2019

Abstract:

In Part I of this white paper, we provided insight into the key steps and success factors associated with the process of re-engineering a corporate real estate services organization. Topics included defining key business drivers and analyzing the current environment, developing a financial baseline, analyzing the operation and the use of technology, and mapping out the desired future state strategy, service delivery model and service level expectations.

In Part II, our focus was strategic sourcing of corporate real estate and facilities services including supplier pre-qualification, bid strategy, RFP development and administration, contract negotiation and transition management.

In this final segment, we'll look at the complex collection of topics related to governance, supplier management and performance management, as well as some of the tools that support the implementation of a comprehensive supplier performance management strategy.

RE-ENGINEERING A SERVICE ORGANIZATION
Part III: Governance

TABLE OF CONTENTS

GOVERNANCE

Introduction

In Part I: Operational Review, the team identified what needs to be done and determined the optimal delivery model. In Part II: Strategic Sourcing, the team executed a successful strategic sourcing process for the required corporate real estate and facilities services. Although these processes can take months – sometimes longer, the work does not end when the contract is signed or even when the services are successfully transitioned to the outsourced partner. You don't simply hand over responsibility for the contracted services, schedule quarterly and annual updates and expect things to run smoothly. Like any relationship, it requires daily focus and effort.

Outsourcing contracts frequently impact hundreds of millions of dollars of spend annually and establish a multi-year partnership between a client and supplier. Suppliers frequently place a substantial portion of their fee at risk. Sometimes, the amount at risk exceeds the profit component of the management fee and impacts a supplier's overhead as well. With both parties so heavily invested in the success of the relationship, effective governance is critical.

Successful delivery of managed services to many stakeholders requires a healthy relationship year over year, and healthy relationships require good governance. But good governance is often difficult to maintain over time as customer and supplier teams tend to focus on the day to day operational execution of critical responsibilities. Challenges relating to the relationship are often swept under the rug, and teams lose sight of the ultimate goal of enhanced and innovative solutions.

In the final segment of this series, we will examine the complex collection of topics related to governance, as well as some of the tools that support the implementation of a comprehensive supplier performance management strategy, including:

➤ Relationship Management Training

➤ Communications Strategy

➤ Escalation Processes and Procedures

➤ Performance Management

➤ Governance Support Platforms

➢ Periodic Relationship Health Checks & Contract Reviews

Start by taking a hard and critical look at your internal resources and expertise. It is not uncommon for the complexities of managing an integrated corporate real estate and facilities services contract to exceed the capabilities of even the most seasoned and sophisticated of corporations. Can your organization spare the resources and focus required to manage the contract? Would objective third-party governance support reduce risk, increase buy-in and enhance the trust and effectiveness of all parties? These are all compelling reasons for considering a consultant. And remember that if you used a consultant earlier in the process to conduct the operational review or to support the strategic sourcing exercise, critical knowledge of the deal and deal intent may be lost if the consultant isn't also included in at least some aspects of governance on an ongoing basis.

Relationship Management Training

Careful preparation related to the relationship structure component of the deal is critical as you transition from the strategic sourcing phase into the operational phase, and training must be part of the transition. There should be initial training, of course, but don't overlook the need for ongoing training as well.

Your relationship management training program should, at minimum, cover the following topics:

➢ All aspects of the deal itself

➢ Deal intent

➢ Performance management components

➢ Communication expectations and escalation procedures

➢ Review of governance support platforms in use

➢ Relationship management

➢ Ongoing strategy of refresher training programs for existing employees and onboarding of new employees

What you will notice is that, except for general relationship management concepts and best practices, the required training is highly customized and specific to the deal and relationship that is being managed. Therefore, individuals that were involved in the process, from the initial analysis and development of the optimal operating model, through strategic sourcing, contract development and transition will be excellent resources as the training program and materials are developed.

Care must be taken to ensure that everyone involved in management of the relationship is identified and required to participate in appropriate training. That includes individuals on both the client and supplier side as well as new hires over time.

Communication Strategy

An effective communication strategy is also critical to the success of a complex strategic sourcing relationship. A successful strategy ensures broad stakeholder involvement and buy-in at all levels of the organization. It is an important factor in maintaining alignment between the parties over time and establishes a strong foundation for trust between the two organizations. A successful communications strategy will:

➢ Establish time-frames and cadence for formal communication for all stakeholders (both at the steering committee/board level as well as at the operational level.)

➢ Foster open and honest communication

➢ Establish expectations for bi-directional communication based on facts, not subjectivity

Guidelines for Formal Communication

Stakeholders should have clear minimum guidelines for the type of communication that must occur and the frequency of that communication. For example, the steering committee may meet weekly at first, but transition to semi-weekly or monthly meetings as certain milestones are met. At the operational level, include provisions for general status updates, specific project reviews, management reports and performance reviews. Special consideration should be given to the need for cross-functional communication, inter-departmental communication and communication between the contract parties. The communication strategy should also include guidelines for recording and distributing the meeting minutes.

Open and Honest Communication

While frequency of communication is important, the quality of the communication is even more critical. An environment that fosters open and honest communication is the key. While management gurus have written entire books on the topic, there are a couple of basic things to keep in mind.

First, even though the client and supplier are two separate organizations, it should be made clear that all the stakeholders and participants in the relationship are part of the same team, and the relationship is not a zero-sum game. The outsourced strategy does not succeed unless it is considered a win-win by everyone.

Second, open and honest communication should be respected and valued, regardless of whether the communication is related to successes, challenges or even a crisis. Nothing is more damaging than an issue that is covered up or where communication is

delayed because of fear of retribution or a tendency to "shoot the messenger." Rather, rapid identification and communication of an issue is the fastest path to its resolution.

Communicate with Facts

Another way to foster effective, open and honest communication is to keep it fact-based. Beware of conversations based on opinions, hunches, or hearsay. Set the expectation among all stakeholders that verifiable facts or metrics support any claims, whether related to successes or shortcomings.

Escalation Processes & Procedures

In instances where normal lines of communication fail to resolve performance issues, conflicts or misunderstandings, clear processes and procedures must be in place for escalation and resolution of the issues. At a minimum, these policies and procedures should:

➢ Identify the escalation process, for each stage of escalation and each category of issue

➢ Identify the appropriate individual to contact with the escalation

➢ Identify the information that should be provided

➢ Identify the appropriate time-frame for response

➢ Identify the process for communicating the outcome back to the stakeholders in the relationship

Companies are increasingly employing a lesser-known technique called a Standing Neutral to address performance issues, conflicts or misunderstandings before they erupt into more serious disputes or lawsuits. The Standing Neutral is described in more detail later in this article.

Performance Management

The contract between the supplier and client is the blueprint for the supplier relationship. Throughout a strategic sourcing initiative, great care is taken to develop a sound and mutually beneficial contract that specifies all the tools necessary to support a strong performance management program. The most effective contracts include the following elements:

- ➢ Outcome based Service Level Agreements (SLAs)
- ➢ Performance Based Specifications
- ➢ At-Risk Fee Structure
- ➢ Shared Saving Incentive Program
- ➢ Performance Measures and a Performance Management Platform
- ➢ A Strong Governance Management program

Outcome based SLAs

A well-constructed SLA sets the stage for clear client and supplier expectations, and contains the following elements:

- ➢ A clear definition of the function to be performed
- ➢ A specific list of responsibilities related to the function
- ➢ Expectations regarding workload volumes
- ➢ Time-frames in which work is expected to occur
- ➢ Clearly stated expectations of service levels and performance levels (focuses on the what not the how)

As noted in Part II of this series, the SLAs are ideally developed for and included in the Request For Proposal (RFP) so that prospective suppliers have a clear and complete understanding of all requirements when they develop their service delivery solution and pricing. Upon selection of a supplier, the same SLAs are then used to define the scope of work in the contract and serve as the basis for the performance management program.

Performance Based Specifications

The SLAs focus on the needs of the company and service level required and does not address the specific process used to perform the service or attain the specified service level (focus on the what not the how). This is important for several reasons:

1. In many cases, the client is outsourcing to take advantage of the expertise of companies that focus in a particular functional area and the client does not have the expertise or knowledge of best practices to successfully specify the best process for achieving the desired results.

2. If the client specifies how work will be done, it is in effect taking on the role of employer and may be held responsible for employee benefits and liabilities related to the work of the supplier's employees.

3. Locking in a specific process may preclude the supplier from applying new innovations, both technological and process oriented, that could bring significant benefit to the client.

At-Risk Fee Structure

Increasingly, companies are requiring suppliers to propose the amount of management fee they are willing to place at-risk as part of the RFP. In a typical application of an at-risk compensation strategy, the supplier places a portion of their management fee at risk. This percentage is held back from each payment until the end of the quarter, year or other appropriate review period.

Based on the metrics and scorecard specified in the contract, the client will pay the percentage of at-risk compensation due based on the supplier's performance for the period. Ideally, the supplier will receive 100% compensation. If not, both the supplier and client should immediately work to identify and address performance issues before the next review period. Remember if your supplier fails, you are failing as well. A good contract is designed to be win-win.

Shared Saving Incentive Program

These days, it is not enough for suppliers to maintain the status quo. Most contracts have provisions for continuous improvement across measures that include quality, efficiency and cost/value. Some cost reductions may be built into the performance measures or SLAs, while added incentives may be offered for savings/value creation or innovations that result in savings/value creation beyond what is expected or specified in the contract.

Shared saving incentive programs incentivize suppliers to find ways to reduce costs associated with the services provided. Savings are shared between the supplier and client according to a predetermined percentage on a quarterly or annual basis.

Performance Measures

Well-defined performance measures help suppliers understand exactly what is expected of them and how their performance will be judged. Suppliers also have a

better understanding of their client's priorities when the client has taken the time to define what will be measured and how it will be measured. Key Performance Indicators (KPIs) are those quantifiable performance measures that the client and supplier have agreed will be used to indicate the level of success of the supplier in meeting the goals and objectives of their contractual relationship and operational metrics are numbers within a KPI or supporting a KPI that helps track performance and progress.

For clients, the absence of well-defined performance measures makes it difficult to measure performance against expectations. If at-risk fee structures are included in the supplier management strategy, detailed KPIs are required that adequately score performance so compensation can be calculated appropriately. Equally as important, well-defined performance measures are critical for the supplier so that they clearly understand what they are being held accountable and how their performance is going to be measured.

Communication & Feedback

As pointed out earlier in this article, communication and feedback processes are extremely important and must be built into every component of the governance. This includes performance management. Detailed SLAs should contain reporting requirements and performance-based expectations regarding frequency and method of communication. At-risk compensation models should require both the supplier and client to provide timely feedback. This is particularly important when performance issues are identified. After all, your goal is that the performance of both parties results in:

➢ Services delivered at the expected level of quality and consistency

➢ 100% of the anticipated compensation for the supplier

➢ Ongoing realignment of the objectives of the client with the goals of the supplier

Governance Support Platforms

A robust and reliable governance support platform is essential to ensure that scorecards are generated on a timely basis, that reporting and benchmarking are timely and insightful and that you don't get bogged down in the minutiae of aggregating metrics, statistics, and other data from multiple sources and departments across the enterprise.

Many organizations – even large enterprises – continue to use collections of home-grown spreadsheets, documents, calendars and databases. Reporting formats are inconsistent and communication regarding the strategic relationship may occur through a variety of channels, obscuring or losing critical historical context and important information. Even when these various documents are stored on a shared, cloud-based intranet, it is possible to end up with multiple conflicting and out-of-date versions. These documents rarely link data or information, resulting in multiple sources of truth for the same data point, and this arrangement makes it impossible to have a single, comprehensive view of the relationship.

Thankfully, governance platforms have evolved that, when effectively managed by the team, solve most of these problems.

A good platform supports sound governance through:

➢ Ensuring consistency in data collection and alignment with established performance measures

➢ Delivering standardized reporting in consistent formats

➢ Creating and storing a complete record and history of all interactions

➢ Providing a common platform for communication and issue escalation

➢ Securing data and sensitive information with multiple security levels and access

In addition, these platforms allow access using a variety of devices, from the traditional desktop or laptop to tablets and smart phones.

Periodic Relationship Health Checks and Contract Reviews

Beyond the structured aspects of relationship management and governance, periodic review and health checks can provide deeper strategic insight into critical success factors, underlying structural misalignments or fundamental changes in the contextual environment that may be eroding value. Some of the different tools that can help uncover challenges and opportunities include:

- ➢ Compatibility and Trust Assessment (CaT™)
- ➢ Relationship Heath Check
- ➢ Standing Neutral – Relationship Facilitation
- ➢ Contract/Deal Review

Compatibility and Trust Assessment (CaT™)

The Compatibility and Trust Assessment was developed by Gerald Ledlow Ph.D. and Karl B. Manrodt Ph.D. to measure the strength of an existing business relationship between two parties. A key outcome of the CaT is to document organizational maturity across five key dimensions of compatibility and trust; trust, innovation, communication, team orientation and focus. It provides an overall "raw score" and highlights "perception gaps" between the parties. Coupled with a workshop to review the findings and develop effective plans to address gaps, this tool can be a powerful support in improving the relationship between supplier and client.

Relationship Health Check

A Relationship Health Check looks at several different aspects of the relationship between client and supplier, including communications, decision-making, governance, innovation, metrics, mindset and trust, performance and problem-solving. The resulting report helps both parties to understand the relative health of the strategic relationship, alignment between the goals and objectives of each other, and alerts them to potential problems and problem areas. The summary findings point the way to opportunities for action plans or contract modifications that will address identified gaps and concerns.

A Standing Neutral – Relationship Facilitation

Where the CaT and Relationship Health Check offer point-in-time assessments of a strategic business relationship, a Standing Neutral contributes to the strength of a relationship on an ongoing basis. The concept begins with the understanding that no contracts are perfect, and that unanticipated situations, interpretations or disputes are bound to happen. At the beginning of the relationship, both parties approve a neutral

third party to stand ready to intervene when called upon at any time throughout the life of the relationship.

The Standing Neutral works as a moderator or arbitrator, but with a critical difference. Having been appointed at the beginning of the contract, before an issue or dispute arises, the Standing Neutral is involved as part of the governance mechanism. Parties to the contract utilize the Standing Neutral earlier as issues arise, and before they erupt into disputes or lawsuits.

The Standing Neutral is a technique that has long been used in the context of major construction projects and other long-term relationships where cooperation is paramount. Although initially designed to prevent problems from escalating into adversarial disputes, it has since developed into a support mechanism that incentivizes the parties to concentrate on resolving the issues rather than allowing them to fester and build.

Contract/Deal Review

A well-structured deal is the foundation of a healthy relationship. Often, contractual terms can drive relationship challenges. In other cases, behaviors are driven based on cultural norms, historical actions or even basic misunderstandings between parties. The Contract/Deal Review is a detailed review of the contracts and exhibits, processes and governance activities for the relationship to assess:

➢ The relevant artifacts relative to the original intent of the deal if known

➢ The current desired objectives and vision for the relationship

➢ Market benchmarks and benchmarks to specific deal strategies

The review helps stakeholders to see the structural flaws in their relationship from a contractual perspective and identifies what needs to be done in order to close those gaps and strengthen the relationship going forward.

Conclusion

This completes our series, **Re-Engineering a Corporate Real Estate Services Organization**. The series touched briefly on the long list of complex topics involved in a process that, when done correctly, can yield outstanding results, process improvements, innovation and savings. But the sheer scale and complexity of the process when undertaken on an enterprise scale, means that there are a multitude of opportunities for things to go awry. Hundreds of millions of dollars and the operational integrity of the business hang in the balance.

The key to success is ensuring that the right resources with the necessary experience are put in place and given the level of support they require. Understand the strengths and weaknesses of your organization, the motivations of the stakeholders, and the likely pitfalls, then plan accordingly. Reinforce your team with outside resources and experienced or neutral third parties wherever it is likely to improve your chances of success. Your investment in excellence will pay off in the long run.

Re-Engineering a Corporate Real Estate Services Organization

Governance → Operational Review → Strategic Sourcing → (cycle back to Governance)

About SIREAS, LLC.

From high-level corporate real estate strategy to organizational design and performance, SIREAS, LLC provides incomparable real estate consulting. SIREAS has expertise in solution design, portfolio and supplier management and sourcing. We enable corporations to streamline their operations, improve service delivery, and increase shareholder value. We provide integrated strategies for reducing costs, as well as portfolio management, workplace optimization, talent retention, facilities services, outsourcing and supplier decision making and governance.

Our leadership includes co-founder and Executive Chairman, Michele Flynn, co-founder, and President and CEO Ingrid Fenn. Together, they have decades of visionary real estate leadership that offers a unique perspective on both the supplier side and the client side of the industry. They have been the driving force in real estate management's shift to performance-based service delivery models. This approach develops more extensive collaboration and aligns both expectations and the interests of both suppliers and facility management organizations. It provides a truer partnership that is linked directly to desired outcomes.

SIREAS has also been named a Vested® Center of Excellence; Vested is a sourcing business model that fosters a highly collaborative environment. Vested® partnerships are designed to enable true win-win relationships in which both parties are invested in each other's success.

Learn more at www.sireas.com.