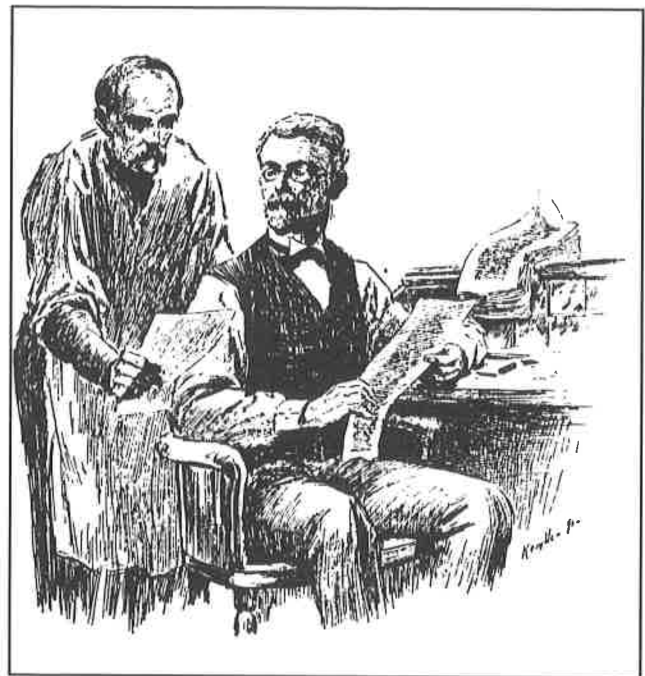
THE CRITICAL SUCCESS FACTORS APPROACH TO CORPORATE REAL ASSET MANAGEMENT

The identification of factors that are critical to the success of a corporation can demonstrate the importance of corporate real asset management to an organization's strategic planning process.

by Hans R. Isakson and Sumit Sircar

Corporate strategic decision-making usually is in the exclusive domain of certain top managers of a firm. Although real assets comprise a significant portion of the total assets of many large corporations, the corporate real asset manager rarely is included in the strategic decision-making process unless real estate is one of the business lines of the firm. As a consequence, important corporate real estate decisions, such as divestitures, acquisitions, etc., are heavily influenced by managers at the strategic level of the organization before the corporate real asset manager has an opportunity to study the situation. It is important that those who participate in the corporate real estate decision-making of an organization understand how they can be integrated into the strategic planning of their firm.

Typically, at the strategic level of a firm, real asset management is under the purview of a vice president of finance. But, recent advances in strategic planning tools strongly suggest that for some firms, especially those that are considering major real estate divestitures or acquisitions, the real asset manager should participate in planning.



This article reviews recent advances in strategic planning tools that corporations may use to assess the strategic value of real asset management to their organizations. An emerging tool, called the Critical Success Factors (CSF) approach, has great potential for enabling a corporation to determine not only the role of real asset management but the roles of all other asset management areas in strategic planning.

Corporate Real Asset Management

Corporate real asset management means many things to many people. Here, corporate real asset management is defined as the comprehensive management of the real estate decisions of a corporation, with real estate defined in the broad sense as any interest in land (i.e., an ownership/lease interest).

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The standard definition of fixed asset management, which includes the comprehensive management of all real property, buildings, leaseholds, contracts, furnishings, equipment and land,[1] covers most of corporate real asset management. However, while corporate real asset management covers real property, buildings, leaseholds, contracts and land, it does not include furnishings and equipment which are not considered to be fixtures.

There are three aspects to fixed asset management: (1) the management of real property decisions (disposition, acquisition, design, construction and operations); (2) facility (interiors of the buildings) management; and (3) office (furnishings, maintenance and communication systems) management. Corporate real asset management directly encompasses the first aspect but only tangentially covers the other two aspects of fixed asset management. Thus, corporate real asset management may be considered a subset of fixed asset management.

A more detailed elaboration of real estate asset management distinguishes between facility management (routine housekeeping and property management) and asset management (site selection, acquisition through purchase or lease), management and control of lease renewals, use of idle assets and disposition of real property.[2] However, the earlier definition of corporate real asset management is virtually identical with the latter.

The exact nature of the activities that entail corporate real asset management varies widely from firm to firm. Yet, no matter what activities actually are designated as the corporate real asset management functions, the firm and its management may suffer in the marketplace if the real assets are not managed effectively and efficiently.

Study Rationale

Corporations that do not use their assets effectively and efficiently are prime targets for hostile takeover attempts, greenmail campaigns and other forms of compulsory corporate restructuring. When a corporation's use of assets is inefficient and capital markets undervalue the stock of the corporation, corporate raiders are tempted to take over the firm, and stockholders become interested in restructuring corporate management.[3] Also, according to Jensen's free cash hypothesis, when companies use cash flows to fund low-value projects rather than to pay out dividends, they become targets of takeovers.[4] Corporations consequently must manage their assets optimally to avoid the wrath of the marketplace and stockholders; they must make the effective and efficient use of their assets a major objective of the strategic planning process.

Substantial portions of the assets of many corporations are real assets; even firms that specialize in services need and use real assets. The form taken by these real assets may vary from fee simple ownership to long-term leasehold interests to joint ventures with developers/lenders. But, whatever their form, these assets represent long-term commitments by a corporation, and they need to be used as efficiently and effectively as any other asset of the firm. Because of their long-term nature, real assets impact upon the strategic planning of a firm. Nevertheless, corporate real asset management is often overlooked.

Whether it be budgeting and control, long-range planning, corporate portfolio planning or strategic management, the strategic planning process of a firm must include tools that enable the assets of the organization to be managed efficiently. Unfortunately, some of these tools, such as return on investment and discounted cash flow analysis, tend to be biased against effective corporate real asset management. Other tools, such as business portfolio matrices and value added chain analysis, leave corporate real asset management out of the strategic planning process if the firm is not directly engaged in some form of the real estate business.

Corporations should place considerable emphasis upon their real assets within their planning. The key issue is how they can determine the extent to which real assets should be included. Certainly, the simplest approach is to include on the planning team someone who knows something about real estate. However, another far more important tool is available. The Critical Success Factors approach is exceptionally well suited to determine the degree to which real assets should be incorporated in a corporation's strategic planning process.

The Critical Success Factors Approach

The Critical Success Factors approach is an example of a concept that was pioneered by practitioners before it was championed by academics. It was used initially in strategic management in the late 1950s, notably by McKinsey and Company, Boston. Several other consultants in the strategic management area subsequently have added to the critical success factors literature.[5] Academics since have borrowed the concept and applied it to other areas. Perhaps the most widely quoted application is that of John F. Rockart, who in 1979 showed how critical success factors could be used in the design of information systems for top executives.

Rockart's definition of critical success factors is probably more widely accepted than any other:

> Critical success factors thus are, for any business, the limited number of areas in which results, if they are satisfactory, will insure successful competitive performance for the organization. They are the few key areas where 'things must go right' for the business to flourish . . .[6]

However, Dickinson, Ferguson and Sircar provided a somewhat different conceptualization in 1984:

> CSFs are defined as events, circumstances, conditions, or activities that require special attention because of their significance. They can be internal or external and can influence success either positively or negatively. Their essential character is the need for a special awareness or early warning system to avoid unpleasant surprises or missed opportunities.[7]

CSFs And Business Strategy

Within the strategic planning process, the Critical Success Factors approach fits best in the formulation of what is called business strategy.[8] That is, once corporate strategy has been decided (i.e., the business[es] of the corporation have been identified), the Critical Success Factors approach is most useful as a tool for determining how the corporation should compete in each of its businesses.

Tregoe and Zimmerman have identified a "critical issues approach" for the implementation of any strategic framework. The strategic framework is derived from top management and constitutes the driving force that determines the scope of future products and markets. They have defined critical issues as:

> those changes, modifications, additions to the organization's structure and systems, to its capabilities and resources, to its information needs and management that result from setting strategy.[9]

Leidecker and Bruno have analyzed the relationship between critical success factors and the strategy development process.[10] Using Hofer and Schendel's seven-step process (strategy identification, environmental analysis, resource analysis, gap analysis, strategic alternatives, strategic evaluation and strategic choice),[11] they find critical success factors useful in the environmental analysis (step 2), as well as the resource analysis (step 3) and strategic evaluation (step 6).

The Critical Success Factors approach is also useful in the formulation of broad action plans. Once the mission of a business has been stated, managers search for those areas that deserve their constant and careful attention to ensure that the organization's mission is being fulfilled. The Critical Success Factors approach is issues oriented, rather than functionally directed because business strategies focus upon issues, not on individual business units or corporate functional areas.

Previous Critical Success Factors Studies

One of the earliest applications of the Critical Success Factors approach is in Rockart's classic article, in which he reports on the critical success factors set by the chief executive officers of: (1) a medium-sized microwave communications company; (2) a major oil company; (3) a store furnishings manufacturer; (4) a government hospital; and (5) an electronics company. Rockart does not reveal the identity of any of these organizations, making any broad generalizations about critical success factors difficult, at best. Real assets never are mentioned; yet effective and efficient asset management (in the form of the price/earnings ratio) is included as the most important critical success factor of the microwave communications company. If real assets are a significant part of this company's total assets, then effective corporate real asset management can help to improve its price/earnings ratio.

Also, the oil company in Rockart's study includes the development of new ventures as one of its critical success factors. Without knowing the identity of the oil company, it is difficult to interpret this critical success factor. Nevertheless, many major oil companies do possess considerable real assets, and corporate real asset management may be an important part of the strategic plan of Rockart's oil company.

About the closest Rockart's study comes to corporate real asset management is the electronics company's critical success factor to improve its facilities. As defined earlier, corporate real asset management includes facility planning and improvement. However, improvement of facilities is the last on the electronics company's list of seven such factors.

Critical success factors in yet another business sector, i.e., hotel companies, are reported by Geller.[12] He compiles lists for six different companies in diverse operating environments. Many of the critical success factors reported touch upon corporate real asset management. One hotel company finds well-planned and well-built physical plants to be its most important critical success factors. For another hotel, reinvestment in its properties is the factor with highest priority, while another hotel finds the identification and purchase of good sites as critical success factors. The lists of some of the other hotel companies include the development of new properties and disposal of old properties.

The critical success factors most frequently mentioned by all respondents also are rank ordered by Geller. Superior product (physical plant) and superior location rank third and fourth respectively, illustrating the overall importance of corporate real asset management in the hotel industry.

As may be expected, the present literature on critical success factors suggests that corporate real asset management has a significant bearing on the factors of some firms while it has little or no importance to others. Also, one cannot predict, on the basis of an industry as a whole, how important corporate real asset management is to a given firm in that industry. Given the dearth of critical success factors reported in the literature, it is not possible to generate any sustainable hypotheses regarding the pattern of the importance of corporate real asset management.

Further studies of specific business sectors, such as Geller's hotel companies study, should provide generic factors for those sectors, which, in turn, may identify generic corporate real asset management needs for those sectors. It is also conceivable that there may be factors common to firms in certain environments, regardless of industry, with attendant corporate real asset management implications. Critical success factor studies of firms with highly developed corporate real asset management capacities would be particularly useful in identifying these generic or common denominators.

CSF Study Procedures

A well-done critical success factor study of a firm will aid the firm not only in determining the role of its corporate real asset management team but also in identifying those

areas that require constant monitoring by the firm's management team.

A critical success factor study is best done with the full cooperation and participation of the top management of the firm. Such studies also can be aggregated at the level of an industry or at the level of a regional/national economy. However, the best place to start a study is at the level of the top management of a firm.

The Critical Success Factor approach is popular with top executives because it is a tool they can understand and use to deal with the substantial uncertainty they face. A common method for getting the study started within a firm is to have an outside expert provide an introductory seminar on the concept to senior executives followed by two interviews with every senior-level manager at the policy making level. The first interview is devoted to eliciting critical success factors from each executive. The lists are later refined and narrowed, through discussions between the expert and top managers, to perhaps five or ten. The second interview concentrates on appropriate measures for monitoring each critical success factor.

Although many of the factors identified by the managers will overlap, in the aggregate those generated by all managers reflect the firm's position more completely than do those listed by any single manager. The measures selected for monitoring each critical success factor reveal to the firm's top managers just how important (or unimportant) corporate real asset management is to the overall goals and objectives of the organization. Indeed, top managers may decide to reorganize the corporate real asset management functions of the firm as a result of the study.

An alternative method of implementing the Critical Success Factor approach is used by IBM of Europe and many of its customers to ensure that a management team "knows where the enterprise is heading and agrees on what it will take to succeed."[13] The technique is called Process Quality Management, and it has some interesting salient features.

First, a top management team of a maximum of 12 members is formed. Meetings are generally held off the office premises and preferably are led by a neutral outsider. The first task of the team is to state the team's *collective* mission.

Next, the team identifies the critical success factors that must be accomplished to achieve its mission. While they must be both necessary and sufficient, there should not be more than eight in number. Identification of the factors usually takes about three hours.

In step three, the team lists the necessary and sufficient business processes for each critical success factor and creates a matrix that illustrates the effect of each business process on each factor. Each business process is the exclusive responsibility (accountability) of one and only one team member. Business processes that are not represented by a team member are not allowed; the team therefore must be reconstituted so that each and every business process associated with a critical success factor has team representation. This point is particularly important for corporate real asset managers. If a real estate business process is associated with any of the critical success factors of an organization, the corporate real asset manager should be made a member of the top management team that is engaged in this exercise.

Finally, the team determines which business processes are the most important to commit resources to, by examining the combination of how well those businesses are currently being managed and the number of critical success factors they impact. It is at this point that the corporate real asset manager is able to accurately assess the importance of the real estate functions of the firm to the organization.

Corporate Real Asset Management Cases

Corporate real asset management occasionally is incorporated within corporate strategic planning. Three case histories illustrate the difficulty of achieving this incorporation. The first two case histories describe the consolidation of all corporate real estate activities into a central real estate function and demonstrate the difficulty of folding corporate real asset management in the strategic planning process when this process is functionally oriented. The third case describes the integration of corporate real asset management into corporate strategic planning when the corporate strategic planning process is issues oriented and uses the basic concepts of critical success factor planning.

GTE Service Corporation

In 1982 under the leadership of a new president, GTE, a major firm in the unregulated telecommunications and data transmission business, consolidated the real estate activities of its 60 subsidiaries into a centralized real estate department, headed by a vice president of corporate real estate.[14] The newly formed department started with a small staff of specialists who provided in-house, full-service project management to all GTE family units.

A major problem encountered by the new department was how to win the confidence and trust of the operating divisions' presidents; initially, the operating divisions were not mandated or required to use the real estate department's services. The problem was addressed by finding a highly visible project that would prove the department's credibility. The project was a success and earned the department a new corporate policy stipulating that they would have to approve any real estate transaction involving sums in excess of a certain amount. The department now practices a variety of proactive management techniques, but it is not completely integrated into the strategic management process. Thus, even with the backing of top management, the in-house, full-service real estate department had to win the confidence and trust of the various operating divisions of the corporation. The mere centralization of real estate activities was not sufficient to integrate corporate real asset management fully into the strategic planning of GTE, especially since

the firm practiced one of the many functionally oriented, strategic planning processes.

Boise Cascade Corporation

Some of the conflicts inherent in the centralization of corporate real estate activities are illustrated by the experience of Boise Cascade Corporation as discussed by Larry P. Ebert.[15] Although Boise Cascade was at one time one of the largest real estate developers in the world, in 1972 it decided to get out of the real estate business. Because it still owned and leased considerable amounts of real estate, Boise Cascade was forced to remain in the real estate business solely in support of operations.

However, a policy requiring the company's operating groups and divisions to use the services of the real estate department conflicted with the growing trend toward decentralization of operations. Once again, the real estate department had to win the confidence and trust of the other divisions, which it did by using bribes to get disposals (gains were returned to the division, while the real estate department ate the losses) and free, high quality servicing to get acquisitions. Later, the real estate department became a profit center; all real assets (owned or leased) were transferred to the real estate department, which then leased the facilities back to the operating units. This profit center role evolved out of the classical conflict between shareholders' and management's interests in the buy/rent decision.

Yet even with the elevated status of a profit center, the corporate real estate department at Boise Cascade was not fully integrated into corporate strategic planning. The centralization of the real estate functions of the operating units into a corporate real estate department did not by itself earn corporate real asset management a position in the strategic planning process of the firm.

Mead Corporation

The process of integrating corporate real asset management into strategic planning at Mead Corporation closely adheres to the concepts outlined in this article.[16]

Mead chooses among investment opportunities through the strategic planning process. In doing so, it follows the following steps:

1. Allocate capital/cash resources to business units selectively.
2. Ascertain/confirm long-term viability of Mead investment in its businesses.
3. Identify critical threats/opportunities facing business units—competition, markets, production facilities, costs, productivity, human resources, legal considerations.
4. Determine overall performance objectives of business units—returns, asset growth, cash use.
5. Provide performance measures for control of actual performance during the planning horizon.

The first two steps clearly deal with the question of what business(es) Mead will enter into, or strategy identification, to use Hofer and Schendel's terms. Once this is accomplished, the Critical Success Factors approach (step 3) is used to prioritize the issues that are most critical to the business(es). The strategic plan is therefore business driven rather than project driven, and the critical success factor analysis provides guidance in determining the most critical areas for the achievement of overall performance objectives.

Step 4 is an integral part of every business plan, no matter what other techniques are used. It is in step 5 that some deviation exists from the planning and control process envisaged in this article. The performance measures used for control are obviously the keys to how management expects to achieve its objectives. Here lies the true test of how effectively the Critical Success Factors approach is being implemented. Although their identification is an important step, it is by no means sufficient. It is imperative that measures be devised in order to monitor performance relative to each critical success factor so the responsible managers can keep track of progress and take action as necessary.

For example, swift access to sources of funds may be critical to the success of a particular business unit. This determination is important, but it is not sufficient to enable control of performance. An adequate measure of performance related to securing prompt access to sources of funds is necessary. Once this is agreed upon, appropriate information systems need to be developed to provide the requested information in a timely fashion to the relevant decision-makers. It may be agreed, for example, that a dollar amount of expected funding by various funding sources, e.g., insurance companies, pension trusts, IDR bonds and the like, will be continuously monitored and that precipitous declines in these amounts will trigger urgent action by top executives of the business unit.

Implications Of Corporate Real Asset Management Cases

The first two case histories (GTE and Boise Cascade) demonstrate that centralization of all real estate activities into a corporate real estate department, even if organized as a profit center, is not enough to ensure that corporate real asset management will be part of corporate strategic planning. The integration of corporate real asset management into the strategic planning process requires a commitment by top managers. The reason for this is that it is usually not a mainstream revenues-generating business unit, even if it is structured as a profit center.

A powerful device for engaging the attention and interest of top managers is the use of the Critical Success Factors approach. Mead Corporation, in fact, uses precisely this technique. At Mead, the strategic importance of corporate real asset management had been largely overlooked before the implementation of the five-step strategic planning process in which elements of the Critical Success Factors approach was made a key component. The real

asset manager at Mead is the envy of his peers across the nation, owing to his close working relationship with the CEO. The broadened scope of his responsibilities indicates the potential of the Critical Success Factors approach for the real asset manager. If Mead were to incorporate the appropriate monitoring steps into its strategic planning process, its use of Critical Success Factors would be even more effective.

It may appear that a necessary ingredient for the proposed planning approach to work is that corporate real asset management be of stragetic importance. However, this is not the case. The Critical Success Factors approach should be followed regardless of its perceived importance to the firm. The exercise will help determine the appropriate role not only of corporate real asset management but of other business issues.

Summary And Conclusions

This article presents a strategic planning tool, the Critical Success Factors approach, which may be instrumental in making top corporate managers aware of the contributions that corporate real asset management can make to the strategic decisions of the organization. The Critical Success Factors approach focuses on issues of heightened concern to the corporation and its various units/divisions rather than to the individual unit/division or functional areas of the firm.

If corporate real asset management is being overlooked as a critical success factor of a firm, which can easily occur when real estate decisions are highly decentralized, the Critical Success Factors approach can reveal to top managers the strategic importance of effective and efficient corporate real asset management. But even if corporate real asset management is centralized, its potential contributions to corporate strategic planning still may be overlooked because of the built-in biases against in-house service centers found in many popular strategic planning tools and processes. The Critical Success Factors approach guarantees that corporate real asset management will play an appropriate role in corporate strategic planning and control.

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