

OCCUPIER INSIGHT TRANSFORMATIONAL CHANGE



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CONVERGING FORCES TRANSFORMING THE CRE INDUSTRY

Thomson Reuters, Gensler & Herman Miller Weigh-in on Transformational Change

It feels as though the corporate real estate industry is on the cusp of something big. Rapid change is occurring across the global business environment and it's being driven by a number of seemingly permanent factors that are altering the way business is done. In the wake of continued economic uncertainty, many companies are still searching for ways to streamline their operations. At the same time, workforce demographics are profoundly influencing how companies are managing and investing for their future.

All the while, technological advancements are transforming how companies connect with their employees and customers in ways that were never imagined a decade ago. All of this presents unique challenges for commercial real estate executives (CREs), who are increasingly being asked to deliver value to their organizations well beyond the traditional levers of cost reduction and workplace design.

What do these changes mean? How do CREs help organizations add value in light of these dynamics? How can CREs answer the call to keep costs down while at the same time invest in the future of their organizations? In this briefing, Cushman & Wakefield (C&W) will examine the transformational drivers of change within the corporate real estate industry and offer perspectives from other experts as we explore the steps CREs can take to better manage and lead their organizations in a rapidly changing environment.

Change within the global corporate real estate industry is taking place on many levels. It's occurring within the operations of the business, within the workforce, in the ways in which we communicate and within the physical space in which we work. According to experts at workplace furnishings and interiors innovator Herman Miller, what is going-on today feels "evolutionary." It has taken time to reach a point of critical mass and we are now at the point in which a "digital explosion" is resulting in new ways of working and redefining how and when work is done.

RAPID CHANGE
IS OCCURRING ACROSS THREE FACETS OF THE BUSINESS LANDSCAPE THAT WARRANT DISCUSSION:

- CRE Operations
- Demographic make-up of the workforce
- Technology and the workplace

CRE OPERATIONS

C&W has begun to see dramatic changes in the CRE operating models of some of its largest global clients. Driven by pressure to create value after cutting costs, many CREs are in the process of restructuring their organizations so that they can better lead strategically. One company that has undergone significant operational change is global media and information firm Thomson Reuters (TR).

In 2008, Thomson Corporation acquired Reuters Group PLC to form one of the world's largest news and information firms. The pressure on the new entity to remain profitable began immediately and this pressure created a fresh set of challenges for a corporate real estate organization that, post acquisition, totaled almost 500 properties across 14.0 million square feet.

Prior to the merger, both Thomson Corp. and Reuters ran highly de-centralized corporate real estate functions, with real estate decisions being made almost exclusively at the local level. Chris Staal, TR's head of Global Real Estate & Facilities Management saw immediate risks with this organizational model and designed a plan to create a new corporate real estate organization. Chris knew that in order to achieve the goals he laid out, he would need to centralize the global real estate function. Only then, could TR begin to leverage resources and information within the firm to strategically support the growth of the new entity.

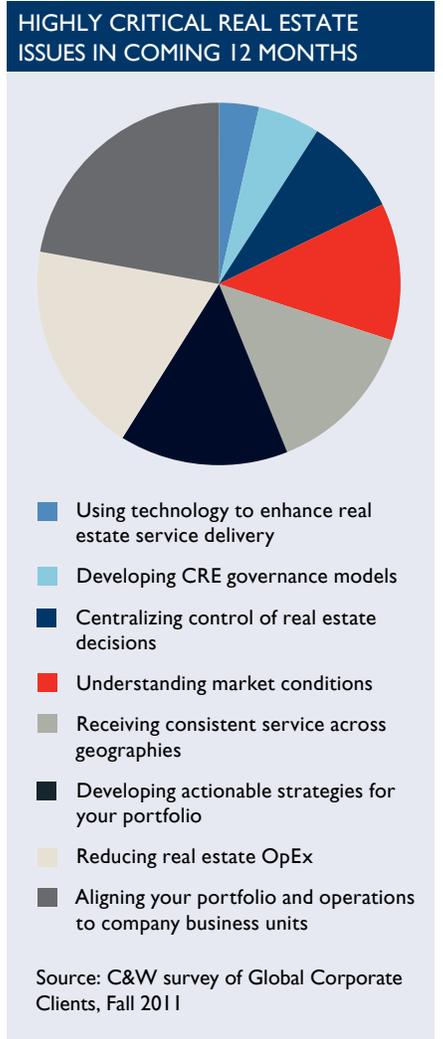
The steps TR took to centralize its real estate organization included the following:

- Created and socialized the strategy within the organization;
- Consolidated the local real estate operations into regional hubs;
- Transitioned employees from generalists to supporting specific regional functions (i.e., facilities management, transaction management, project management, portfolio strategy) and;
- Engaged its outsource service provider to develop a global strategy and governance plan to drive operational efficiencies.

TR has quickly begun to realize the benefits of its new centralized organization. Domain knowledge within the corporate real estate group is now concentrated at the top of the organization, so the CRE team is aligned and can lead strategically. Functional experts are now able to leverage their collective experiences by collaborating with their peers globally. The new structure has also enabled the TR team to identify cost saving opportunities by reducing the number of suppliers and third-party providers. It has also

CREs

are increasingly being asked to deliver value beyond cost reduction



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allowed for centralized technology, standardized global processes and the development of a robust governance model that aligns stakeholders and constituents. Moreover, the centralization and standardization of the real estate organization has resulted in a more consistent employee experience across offices globally, which is particularly important for building brand awareness and reinforcing corporate culture.

Outcomes of TR’s Centralization Process

- Aligned the CRE function with the broader organization
- Centralized knowledge for better strategic decision-making
- Generated costs savings via scalability
- Enabled more efficient use of outsource service provider relationship
- Provided a consistent employee experience across offices
- Standardized processes and technology

TR’s centralization process has also given the CRE organization more flexibility to adapt to future changes in the company’s growth strategy. This will allow the CRE organization to continue to add strategic value to TR as the firm’s operations evolve.

DEMOGRAPHIC MAKE-UP OF THE WORKFORCE

The second force driving change across organizations is demographics. The economic downturn of 2008-2009, and continued slow economic growth, has meant more-and-more baby boomers are delaying retirement. At the same time, the millennial generation has begun to enter the workforce. With a much smaller generation in the middle, Generation X, there are now multiple generations of workers that companies must consider.

Gensler’s research reveals that each generation has preferred ways of working that are influenced by the technology and experiences that comprise their early adulthood and working life. For example, Generation X, born between 1965 and 1979, is dramatically influenced by the personal computer, the dot com bust and the tragedies of 9/11. They are comfortable around technology, but did not grow up absorbed by it. Baby boomers have accumulated vast and irreplaceable knowledge of how business works, but for the most part are uncomfortable with immersing themselves in the new methods of business communication. On the other hand, the millennial generation is driving new forms of communication but is relatively inexperienced in the working economy. The illustration below shows some of the generational preferences that companies are dealing with as they contemplate their workforce.

Thomson Reuters

centralization process has given the CRE organization more flexibility to adapt to future changes



	BABY-BOOMERS	GENERATION X	MILLENNIAL
EMAIL IS...	One more thing to do, another thing to learn	The best way to stay in touch	Not nearly as good as instant messaging and blogging
INSTANT MESSAGING IS...	Another distraction popping up on my screen	A good, quick way to get things done	Like breathing—I can carry on seven conversations at once
TEXT MESSAGING IS...	For techie kids	Good for short messages	What I do all day long
MOBILE VIDEO MESSAGING IS...	No idea	A novelty	Commonplace
POWER POINT IS...	Effective and professional	My right arm	Pretty boring in a speech and hard to make interesting
FACE-TO-FACE MEETINGS ARE...	Vital	Key. I need to know people understand what’s important	Uncomfortable, confrontational and overly formal
SEARCH ENGINES ARE...	Useful but not trustworthy	How did we survive without Google and Wikipedia	My super-tool. My home page and lots more
CONFERENCE CALLS ARE...	The next best thing to a meeting	The way we work these days	An opportunity to multi-task while “listening”
SUSTAINABILITY IS...	Disbelief	A hope	An expectation

Source: Accenture

Gensler has also identified four primary work modes in today's economy. Twenty years ago, "focused work" dominated the workplace and that is the way in which most baby boomers feel comfortable working. Focus work involves focusing on a single task intensely, primarily alone and with a specific goal or outcome in mind. At the opposite end of the spectrum is "socializing", which involves interacting to create common bonds, collegiality and relationships. Although focused work continues to be important, Gensler's research shows that success in the knowledge economy is highly dependent upon an organization's ability to build strong social networks, to support collaborative processes, and to create an environment that facilitates continuous learning. The graphic below depicts the nature of the various modes of working today.

Gensler

has done extensive research on the multiple-generations and how they think about their work environment

TODAY'S WORKPLACE IS COMPRISED OF FOUR WORK MODES:

SOCIALIZE

Social Capital

Work interactions that create common bonds and values, collective identity, collegiality and productive relationships

FOCUS

Productive Capital

Work involving concentration and attention to a particular task or project

LEARN

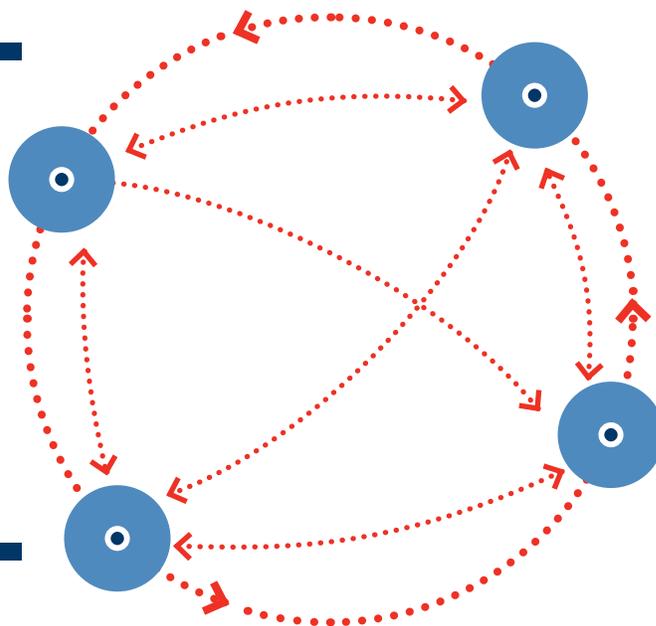
Intellectual Capital

Working to acquire new knowledge of a subject or skill through education or experience

COLLABORATE

Innovative Capital

Working with another person or group to achieve a goal

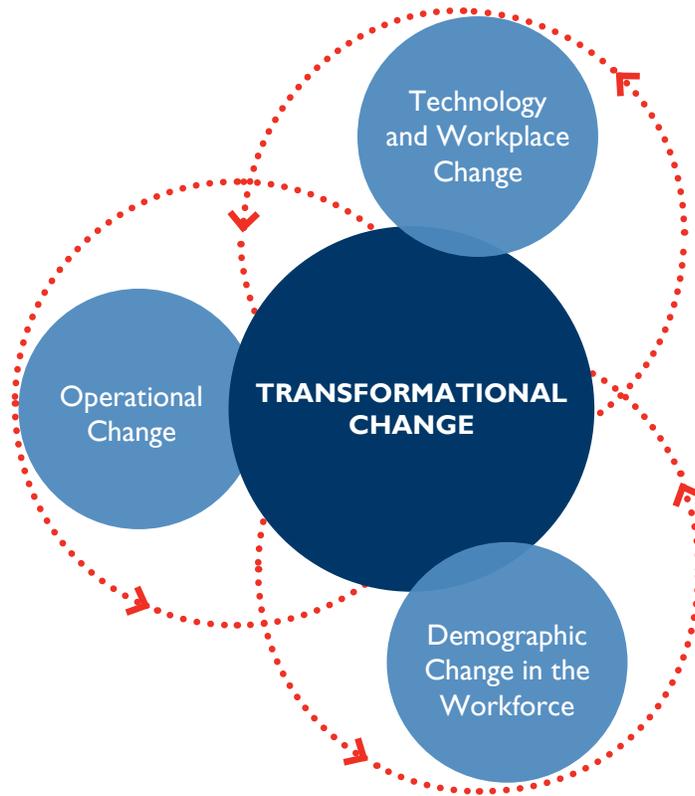


Source: Gensler

As demographics continue to change, the challenge for CREs is designing the right environment that allows each generation to work together (despite their preferences). However, at the same time companies must plan for the future of work within their organizations. In the long run, technology will be the ultimate driver of change and will influence how and where we work.

TECHNOLOGY AND THE WORKPLACE

Technological advancements in communications now allow work to be done anywhere and at any time. What is transforming about technological change is that it is altering the way companies define work. The idea of work has transformed from being a place to go, to a thing one can do anytime and anywhere. Individuals do not need to be in the same office at the same time to get work done. Herman Miller defines it as a “transformation unleashed” in that unlike technology advances in prior business cycles, the technology itself is no longer tethered to the traditional office. With mobile devices we are now “untethered,” like never before. However, as experts at Herman Miller and other organizations are quick to point out, the potential for innovation is still greater when individuals come together. In the foreseeable future, individuals will still benefit from direct human contact and interaction to spark true creativity. And while technology enables a degree of collaboration and sharing at a distance, Herman Miller also suggests that individuals still desire a sense of culture and “belonging” to feel part of an organization. This presents challenges for companies in determining how to properly plan for changes in workplace design and in structuring the right environment to foster innovation and collaboration.



Herman Miller

calls the current trend a “transformation unleashed” in that, unlike technology advances in prior business cycles, the technology itself is no longer tethered to the traditional office



MANAGING THE CHANGE

Given the transformational changes taking place, how does a CRE manage their organization in this environment?

- 1) Be the Change Agent
- 2) Focus on how your organization works best
- 3) Adopt the right organizational structure

BE THE CHANGE AGENT

CREs must be agents for change within their organizations. Change is not always easy for employees to embrace. However, those companies that do not accept the fact that the work environment is changing rapidly run the risk of falling behind their competitors. Whether it's centralizing the real estate function to drive global consistency, gaining an understanding of their organization's future labor needs, or maximizing the use of mobile technology, strong leadership is required. Using change management experts to assist with re-training, engaging senior leaders outside of real estate for buy-in and socializing the changes with those that will be most affected, are all critical elements to leading a CRE organization through a change management process.

FOCUS ON HOW YOUR ORGANIZATION WORKS BEST

New workplace designs, working anytime and anywhere, less space across the portfolio are all exciting concepts. However, CREs need to be sure that they implement the right changes for their organizations. According to Gensler's 2008 research survey of top US companies, workplace design has a significant impact on employee productivity, which in turn impacts profits and brand value. Top performing US companies report that effective workplace design correlates to better business performance, resulting in 31% higher employee engagement, 43% higher brand value and 56% higher profit growth. Gensler also notes that the workplaces of top companies are designed to support all four work modes. While collaboration (and social) space is certainly critical to any workplace strategy today, most employees and/or functions still need space to do focus work. Critical to success is knowing the right mix of space needs to support the four work modes in order to optimize workforce productivity.

ADOPT THE RIGHT ORGANIZATIONAL STRUCTURE

Today's rapidly changing environment requires organizations to be flexible. CREs cannot properly support the businesses they serve if their organizations are unable to adapt to a changing landscape. Leading companies today are taking steps to centralize or streamline their CRE functions so that they can better adapt to the continuous shifts in the business landscape. Aligning with company business units, centralizing decision-making and processes through corporate governance programs and focusing on the employee experience, are all priorities for leading global companies. Moreover, many firms are exploring different types of outsourcing models and are using the expertise of their outsource service providers more efficiently. Rather than matching up roles on the company side to the service provider side (i.e. facilities manager or transaction manager), more-and-more companies are alleviating themselves of tactical real estate responsibility altogether and focusing on better serving their real customer: their business units.

Companies

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