

TO BUILD IS TO LEAD

Derrick Van Mell (October 17, 2003)

PART I OF III: Leadership Opportunities

In 1991, Lee Iacocca opened the Chrysler Technology Center, a 2.6 million square foot, \$1 billion consolidation of all of Chrysler's new car development functions. This bold project allowed Chrysler to dramatically accelerate bringing new cars to market, and it was instrumental in facing off intense foreign competition. The practical effects were clear, and the message was clear, too: We know where we're going, and we've got the ideas and guts to get there. Intelligent risk-taking is clearly a criterion for successful facility decisions.

Winston Churchill said, "We shape our buildings; thereafter, they shape us." This lasting truth applies to every organization, no matter what its size or mission.

Wise leaders understand that decisions about their buildings are profound opportunities for shaping their organization's vision, culture, and capacity for growth. In addition, the economic stakes are high: having the right building in the right place yields operating gains, increases long-term flexibility, and leads to profitable community relations. Few of the decisions leaders face have such a visible and lasting effect on their organizations.

Sparks and transformations

What sparks a decision to change buildings or locations? Organic growth is the primary factor; others are entering a new market, an acquisition, a cost reduction drive, or shaking off inefficiencies. New leaders bring new perspectives and dreams, and those attitudes often prompt facility changes.

Whatever the reason for a facility change, *the outcome is unavoidably transformative*. These decisions are tigers good leaders must learn to ride.

Proclaiming one's vision

Whatever the industry, decisions to move, expand, renovate, consolidate, or renew are proclamations of the leader's ideas and style. There's no hiding from these decisions or from the messages they send; even indifference will be seen by everyone. The design and placement of the building shows whether the leader understands his staff and his customers.

Corporate vision and corporate architecture are closely knit. Most buildings now are generalized post-Modern and say more about the architect than their client. A few buildings tell a dramatic story,

like Longaberger's basket of a building (photo). First impressions are powerful: the critical *leadership* test is what staff and customers think of their organization as they approach, enter, and work in the building.



Outside looking in

Staff, customers, board members, lenders, Wall Street, politicians, and competitors will form strong opinions about that organization's future based on where and what shape the building takes. Likewise, a leader can learn a lot about *them* by studying their building and its location. It is a form of corporate archaeology.

Setting the culture

In *Leadership Is An Art*, Max Dupree, ex-CEO of Herman Miller, wrote that "Facilities should enable and empower people to do their best. They should encourage a rising level of knowledge about corporate life: literacy about business, the competition, relationships, and ownership." Efficient, healthy, and attractive buildings touch everyone's job, shaping that culture every day.

The CEO of a flooring distributor noticed many more new cars in his staff parking lot six months after his new building opened. He concluded that his decision to build had given his staff confidence in their future success together.

The design and neighborhood of a building set the tone of an organization. The architecture and site can be serene, comforting, and contemplative, or they can be stimulating, exciting, and bold. A good architect will listen and create spaces, colors, and details that are right for the organization. A bad architect or neglectful client will create a space and place that limit the organization indefinitely.

Quality of construction is another way to shape culture, as it sets expectations of quality of work. If the architect and builder attend to detail, choose the sturdy over the superficial, and invest wisely in lasting materials, everyone working in or visiting the building will feel better about their own work. Leaders should not ignore the psychological effects of the physical workplace.

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American attitudes towards buildings differ from those in Europe and Asia. Americans are less concerned with architecture and permanence. Instead of ten year decisions, Europeans and Asians make fifty-year building decisions and the design and quality standards are all higher.

Hierarchy & labor relations

Shaping the culture is not just about creating atmosphere. The author, when researching a presentation to a CEO group, discovered the reconstructed floor plan of Nero's palace in Rome. It was very similar to a floor plan then being developed for a high-tech company: the size, position, and finishes of the executive office were clearly imperial, though the rhetoric of the firm was democratic. *Buildings reveal the truth about authority within that organization.*

The story of Malden Mills, manufacturers of Polartec®, is a well known story about leadership and seizing an opportunity to shape corporate culture. On December 11, 1975, 750,000 square feet of manufacturing space was destroyed by fire but Aaron Feuerstein, the CEO, immediately vowed to rebuild the plant and to retain his 3,000 person workforce. Mr. Feuerstein made the building the symbol of his commitment to his people and thereby cemented their "can do" culture. The destroyed 100-year old facility was replaced by a state-of-the-art, smaller plant.

Capacity & capabilities

James Baker III said about leaders: "They know what to do and they do it." Having the right vision and culture is useless without the physical capacity to get the job done right. Iacocca's Technology Center was at its core a huge piece of equipment the entire team used to increase market share.

Sometimes adding *capacity* is simply a matter of providing raw space, but adding *capabilities* can be more subtle: providing a new office layout to fit a new organizational structure or renovating the plant floor to leverage the latest production technology. A new location can affect capabilities, too, by bringing the organization closer to customers or suppliers.

Major facility decisions are opportunities to proclaim vision, shape culture, and provide the tools for success. How does a leader measure the value of these decisions? Next, we examine the effects of facility decisions on financial strength, operational flexibility, and community relations.

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PART II OF III: Building Value

Financial strength

The right building in the right place strengthens customer relations, operating efficiency, productivity, recruitment, and the use of its capital. It affects every major line of the financial statements.

An updated layout or improved position within a supply chain or labor pool can easily result in a 2-5% improvement in direct labor and materials. A better location, image, and response time can boost sales as much as 10%. On the other hand, *an outdated layout, design, or location will always be in the way.*

One key measure is return on assets. It takes some effort, but it is possible to model the effects better buildings and locations have on ROA and earnings per share. An efficient, attractive, and accessible building can provide a startling degree of operating and competitive leverage.

A far-sighted view of a facility's effectiveness is also essential in a merger or acquisition. Too many acquisitions are based on the market value of the real estate—when the buildings have *no operational value* to the new enterprise.

Operational flexibility

Leaders naturally defer decisions to build or move because they do not want to put themselves into an inflexible box. Though these are difficult long-term decisions in a short-term world, delay is costly.

Fortunately, there are facility planning techniques for improving physical and financial flexibility. Physical flexibility can be achieved by investing in extra space and land, open structural layouts, and robust building systems. Locations can be made flexible, too, if there are alternative shipping routes and public warehousing available nearby. Financial flexibility can be found in creative leases, layered financing, and careful project phasing.

Only the leader sees all the things that can help or hurt his organization and, therefore, it is the leader who puts the highest premium on flexibility.

Community relations

Responsible leaders foresee the implications of a new building to their communities. As a local employer, buyer, and corporate citizen, their decisions affect many more lives than those of its employees. One

new job often has a five-fold impact on the local economy.

With property rights come property responsibilities. When a leader negotiates economic incentives from a community, it is only fair that it be with the intent to stay a long time. It is important to be well thought of in one's own community.

When Sears moved from the tallest, most prestigious building in the world to an anonymous suburban campus, the resentment felt in Chicago's business and political communities was deep and lasting.

So far we have summarized the leadership, financial, and community relations consequences of facility decisions. So, how can a leader make a successful decision? All leaders need a solid framework and objective information from non-biased sources as described in the next section.

TO BUILD IS TO LEAD

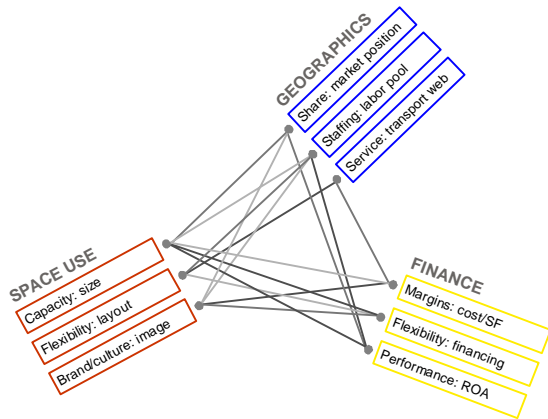
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PART III OF III: Solid Decisions

The approach described here has three critical steps: an integrated framework for the decision-making, identification of the key information, and relevant financial forecasting.

Integrated facility planning framework

This diagram summarizes Integrated Facility ProgrammingSM, a long-range facility planning process developed in 1991 by the author. All facility decisions must integrate geographics, space use, and finance: a building appropriate for one location may fail in another because of its size, image, or functionality.



The first step is to brainstorm the key objectives. Starting with geographic analysis, the leader should set three or more objectives for each of the nine categories outlined in the diagram shown above. While each industry will define its issues differently, the expanded outline in Exhibit A entitled “Key Facility Objectives” applies universally. No matter what the industry, these are tough and complex decisions with little room for error.

Identify key information

Prudent leaders want to minimize projects, but often get advice from industries rewarded by large deals. How can a CEO think about these issues in his own terms? Good decisions depend on objective information summarized to the right level.

Geography and maps

The most powerful geographic analysis tool now is GIS, a geographic information system (computerized mapping). This specialized software allows decision-makers to integrate data-rich maps of customers, staff, and transportation needs and is worth the effort and expense. Stacks of brochures from economic

developers or long lists of comparable land costs from broker-dealers raise more questions than they answer.



Space use and block plans

The tools for optimizing and forecasting space use are well-established: a program of space use (a room-by-room spreadsheet of every space) and an adjacency or workflow diagram. A common mistake is to commission colored renderings or full construction documents.

The leader *should not see* unnecessary amounts of detail. To make the core decision, the leader needs only dependable high and low projections of space requirements, a simple block plan showing the general arrangement of spaces, and a concept of the building’s quality and appearance. This summary information is essential for clear communications and budgeting.

The best way to develop an architectural image is to imagine the step-by-step tour on which the sales team takes a large prospective customer. The leader should facilitate a lively discussion of the symbols, graphics, and artifacts that already convey the organization’s image. A good architect will translate this material into a design that radiates the client’s message and not the architect’s default style.

Relevant financial analysis

Discounted cash flow models are widely used to analyze facility decisions, but they are an unhelpful carry-over from the real estate investment industry. For the owner/occupant, the key question is a familiar one, “What will my statements look like under option A or option B?”

While the facility project and operating costs need to be known, the leadership question is how sales, direct costs, and overhead will be affected. A 1% sales boost or 1% payroll efficiency in the three-year plan will hugely overwhelm a premium for facilities. Of

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course, the ideal solution is a low-cost facility investment that returns dependable operating and service gains.

Stop and think

Maps, block plans, and forecasted financial statements are the vital information leaders need to make balanced, forward-looking decisions about buildings and locations. Time is needed to analyze clearly and reflect deeply on all the information.

CONCLUSION

Facility decisions are difficult and lonely decisions, easy to second-guess and easy to get wrong. But with a solid planning framework, leaders can bless their organizations with buildings and locations that will be inviting to their customers, inspiring to their staff, and appreciated by their community.

EXHIBIT A: Key Facility Objectives

GEOGRAPHICS

Market position

1. Target market share of ___%
2. Locate close to/far from competitor ___
3. Position within key demographic

Labor pool

4. Help reduce turnover 10%
5. Position within key demographic
6. Keep average commute under ___ minutes

Transportation

7. Optimize outbound shipping
8. Locate near suppliers B, C, and D
9. Ensure maximum delivery time of ___ hours

SPACE USE

Size and capacity

10. Provide for 2008's high sales projection
11. Assume full benefit of ERP efficiencies
12. Allow space for R&D successes

Layout and workflow

13. Assume full benefit of ERP efficiencies
14. Reduce number of private offices
15. Provide new staff amenities

Image

16. Survey key customers about image
17. Align architecture with website design
18. Develop detailed design standards

FINANCE

Cash flow

19. Reduce facility expenses to ___% of revenue
20. Reduce Cost of Goods 3-5%
21. Increase Revenue 2%

Project financing

22. Own the facility, but preserve market value
23. Keep Debt : Equity under 1.5
24. Pre-review financing with lenders, auditors

ROA and risk

25. Increase ROA to ___%
26. Dedicate 5% of project budget to flexibility
27. Achieve unanimous Board approval