

# *Five Strategies for Balancing Your Top and Bottom Lines*



It's not often you hear numbers measured in quadrillions, but that's how much human capital represents to our global economy. A recent economic analysis from Korn Ferry International pegs that number at \$1.2 quadrillion—2.33 times that of physical capital, which includes \$521 trillion worth of tangible assets like technology, real estate and inventory.<sup>1</sup>

Simply, human capital holds the greatest value for your organization. These workers are the revenue creators, whether drug developers at a pharmaceutical company, portfolio managers at an investment firm or attorneys in a law practice.

For today's employers, the largest expense isn't real estate—it's human capital. The average salaries as a percentage of operating expense is 43.5%, according to the 2016 SHRM Human Capital Benchmarking Report—and even a small impact on productivity, engagement and satisfaction in the workplace can have huge returns on investment. Not only for the company itself, but the economy: For every \$1 invested in human capital, \$11.39 is added to the GDP, Korn Ferry says.

<sup>1</sup> [http://static.kornferry.com/media/sidebar\\_downloads/Korn-Ferry-Institute\\_The-trillion-dollar-difference.pdf](http://static.kornferry.com/media/sidebar_downloads/Korn-Ferry-Institute_The-trillion-dollar-difference.pdf)

*These workers are your top line  
and the space they occupy has a  
direct impact on their productivity.  
But you can't manage what you  
can't measure.*

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### **Measuring the Occupant Experience**

It's easy for companies to hire real estate professionals to immediately think of ways to reduce operating costs to positively impact a company's bottom line. But there's a more important factor for companies to consider: the occupants themselves.

Trends like rapidly evolving technology, intensity of competition and solid merger and acquisition activity have led to the reconsideration of what the tenant experience really means. Savills Studley, the market leader of tenant representation in the knowledge economy, offers tools that help clients understand what makes a better performing building and the importance of real estate on their top line. It focuses on factors such as wellness, workplace innovation, design experience and occupant engagement.

Historically, corporate real estate and facilities professionals hired by companies were driven by the bottom line, or revenue less expenses. We've tended to think the primary way to improve the bottom line was through reduction of expenses—these numbers were clear and easy to measure and incentivized.

Now the industry is increasingly aware the bottom line can be improved by focusing on the top line. Measuring real estate's impact on this top line—revenue-generating occupants—is a bit trickier, as there are fewer tools to gauge success. Even if you can measure, there is often an inherent social bias leaning toward proving harm versus good. (For instance, it's easier to count sick days than high-performance days—and then you're back to the bottom line.)

Once we start taking a deeper look at occupants' productivity and performance, we will see there is more to be gained by doing so.

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### **Why Focus on Occupant Experience?**

By focusing on the occupant experience, a company can examine how space works for its employees and drives their productivity. For instance, how is their commute experience? Is the building accessible to transportation and amenities? What is the experience like within the building? How do architecture, design and building performance meld? Are occupants getting enough light and fresh air?

Both corporate real estate professionals and company leadership need to look at buildings from this human perspective and how the space enables human performance. This is because internal employee experience has direct impact on the external client experience.

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### **Silicon Valley's Approach**

Hyper-competitiveness for talent among technology firms has driven the West Coast commercial real estate market out of conservatism, a conflation of individual remuneration and collective performance.

“In Silicon Valley, the tight correlation between personal interactions, performance and innovation is an article of faith and innovators are building cathedrals reflecting this,” notes a 2014 Harvard Business Review article, “Workspaces That Move People.”<sup>2</sup>

Features they have adopted include open office layouts, outdoor and public spaces encouraging in-person connections and rotating office assignments.

The authors questioned whether such features “could just be another in a long line of fads and broken promises in workspace design. ... How do we know whether any of these approaches is effective?”

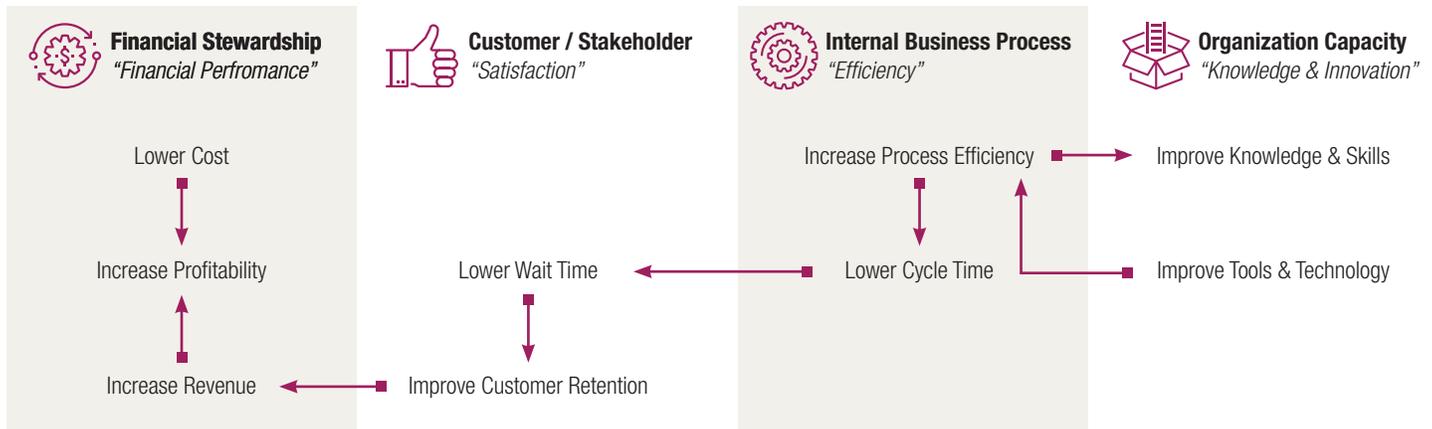
But their actual discovery: The ability to have face-to-face interaction is by far the most important activity in an office. Having good office design encouraging this interaction—which some people refer to as “casual collisions”—improves performance.

<sup>2</sup> <https://hbr.org/2014/10/workspaces-that-move-people>

## THE BALANCED SCORECARD SYSTEM

Many businesses rely on what's called a balanced scorecard, a strategic planning and management system that aligns business activities to the business' strategy and business; improves internal

and external communication and monitors organization performance against specific goals.<sup>3</sup>



### Leading Question: How?

The system, created by Drs. Robert Kaplan and David Norton, uses key performance indicators—particularly non-financial performance measures—to give executives a balanced view of the company, not just the financials.

In addition to financial performance, the balanced scorecard looks at internal business processes, organization capabilities and the

### Leading Question: If \_\_, then \_\_?

customer/stakeholder. The last metric shows when customers aren't satisfied, they'll eventually find other suppliers that will meet their need. It also shows poor performance in this area can be indicative of future business decline.



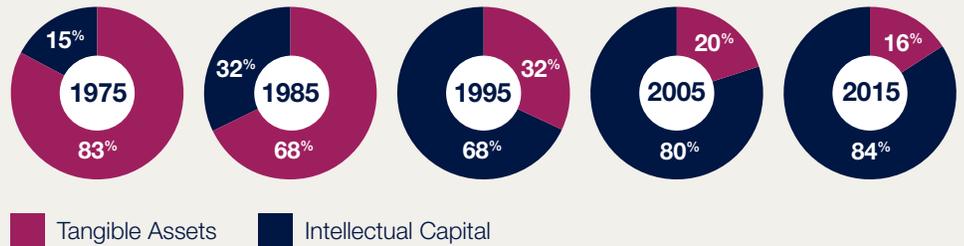
The authors' findings prove a correlation first published 40 years ago, in 1977. In his book, *Managing the Flow of Technology*, MIT professor Thomas J. Allen put forth the "Allen curve," which shows an exponential drop in communication between people as distance between them increases. The authors note workers hardly communicate with colleagues on separate floors or in separate buildings.

Case in point: Zappos' Las Vegas headquarters launched a local co-working experiment in early 2012 that grew to include 200 stakeholders, including employees, area residents, start-ups, independent workers and others. Early results of the experiment, the authors point out, showed the "neighborhood" design of the co-working space, known as The Downtown Project, fostered mobility that created these casual collisions.

<sup>3</sup> <http://balancedscorecard.org/Resources/About-the-Balanced-Scorecard>

“After six months, data revealed a 42% increase in face-to-face encounters, a 78% increase in participant-generated proposals to solve specific problems and an 84% increase in the number of new leaders—participants who initiated work and collaboration and developed project scope and objectives. Ten new civic and local community projects were launched—including the Sunday Reset Project, a monthly event to promote healthful living,” the article points out.

## THE MACRO-ECONOMICS SHIFT FROM OBJECTS TO IDEAS



US S&P value from 1975-2015



One look at S&P 500 data from the past 40 years shows the business world was formerly predominated by organizations making widgets or objects (83% in 1975).

It's not inconsequential or happenstance that most of what is considered modern management theory comes from the United States in the wake of the Great World Wars. It was an era of making things, from cars to airplanes. So everything was measured by physical production: the run time of the conveyor belt, the errors made and the units produced. Output was measured per hour and people were paid by the hour.

Today, 84% of companies are in the business of selling ideas. However, the

traditional tools with which we think about productivity are founded on the ability to produce objects, rather than the ability to produce ideas or enable talent.

Successful contributors in today's knowledge economy aren't thinking by the hour. Do you measure a computer programmer's output by how many lines of code he puts out an hour? By applying 20th century metrics to this new economy, we get laughable results—what you want is shorter, elegant code whenever possible.

This is why focusing on occupant experience—and employees' ability to interact and collaborate—is necessary.

*The more conservative  
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Zappos measured the effectiveness of its space with a metric it calls “collisionable hours” or the number of probable interactions per hour per acre. The article states Zappos CEO Tony Hsieh and others believe companies designed on this model will be more productive and innovative, both as businesses and communities, giving them a strategic advantage in the long term.

The authors discovered a variety of other ways to measure how real estate impacts the top line, including simple network analytics and sociometric badges<sup>4</sup> that capture both communication and location information.

The more conservative East Coast better wake up to current changes in workplace design and culture. It needs to catch up if it wants to keep attracting top talent, especially in the TAMM (technology, advertising, media and information) sectors.

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### **Strategies for Balancing the Top and Bottom Lines**

The ultimate goal in providing the optimal tenant experience is being able to balance the top and bottom lines. But how can companies achieve that? Here are a few strategies:

#### **1) Observe Other Sectors for Guidance on Blended Metrics**

Look toward non-corporate office environments to understand how they focus on occupants and the impact that focus has on the space's performance. Two of the best sectors are hospitality and retail. Hotels emphasizing a positive guest experience can measure success through increased revenue per available room, while retailers offering a pleasant shopping atmosphere can quantify its achievements through improved sales per square foot.

In both cases, real estate influences the top line, which in turn positively impacts the bottom line. That experience can be emulated in the corporate office environment, translating into increased productivity and performance.

#### **2) Collaborate with Human Resources, IT & Corporate Communications**

Corporate real estate professionals should work with leaders in these departments to leverage data that measures people and the impact of their work—they can no longer rely on only measuring square footage. Together, they can discover technology that can track and enable the occupant experience.

4 Sociometric badges are wearable electronic device capable of automatically measuring the amount of face-to-face interaction, conversational time, physical proximity to other people, and physical activity levels using social signals derived from vocal features, body motion, and relative location. (<http://hd.media.mit.edu/badges/>)



These three departments have the responsibility of accommodating the employee experience. When one of them makes an investment or launches an initiative, it impacts each other and the real estate. If these subcomponents are not aligned, there's a risk these investments or initiatives will not be successful.

For instance, HR professionals want to keep costs down and keep revenue-generating employee retention high—the top line<sup>5</sup>—while real estate professionals are keen on tracking the cost of operations, the bottom line. Each entity is inadvertently not incented to work together. However, Savills Studley shows clients how to bring these diverse metrics together and understand how these departments influence each other. This will help determine if you are providing the optimal occupant experience that aligns with your business' goals and allow leadership to come up with a system that will track and manage these results going forward.

### 3) Look at a Building Holistically

The occupant experience is not limited to the few thousand square feet in which the company resides—it's also the entire building. Look at the building from a user perspective, not only at the design stage, but during the business or site selection stage as well. Co-working companies like WeWork do this well—instead of seeing buildings as Class A or Class B assets, they are instead focused on features like operable windows, ceiling heights and how they can optimally configure space within the core.

### 4) Be Flexible

Don't be afraid to experiment within the current space. Instead of walking past a couch and saying, "No one ever sits there," change it or reconfigure until you find a location where occupants use it—it's cheap and experimental, with minimal impact on costs.

Tenants could also consider a fail-fast philosophy to real estate and facilities—one that allows them to easily stop normal operations rather than attempt to continue a possible flawed process.

<sup>5</sup> In this instance, we use top line to describe revenue-generating employees, or the knowledge economy driving the company's bottom line. Many companies also have a large headcount of non-revenue generating employees, but their salaries come from the organization's overhead. Nonetheless, they still positively contribute to the organization.

Technology non-profit Mozilla, headquartered in Mountain View, Calif., is one company that approaches its real estate with a fail-fast philosophy, viewing it “as a continuous feedback loop of hacks and disruptions, a process full of lessons applicable to all workplace re-strategizing.”<sup>6</sup>

Among its strategies:

- Providing a budget cushion that allows the real estate team to take chances and repurpose space as needed based on post-occupancy research
- Making sure the workplace is flexible and appealing for all employees, giving them a variety of spaces in which they could be most effective
- Trying plenty of new things, fixing ones that don’t work and admitting defeat quickly so they can move on to a new idea

“As a tech company, we recognize the needs for scalability, growth, flexibility, experimentation and the ability to fail fast,” said Rob Middleton, Mozilla’s director of workplace resources. “We are expected to fail at Mozilla. If we don’t fail we don’t learn and if we don’t learn we aren’t pushing the envelope.”



## IMPROVING PRODUCTIVITY THROUGH BUILDING WELLNESS STANDARDS

There are various cost-effective, high-impact building certifications real estate owners and managers can consider that positively impact occupant health and productivity. One of them is Fitwel<sup>7</sup>, which was developed by experts from the U.S. Centers for Disease Control and Prevention and the General Services Administration.

Buildings are scored on seven attributes, particularly how they: impact community health; reduce morbidity and absenteeism; instill feelings of well-being; provide social equality for vulnerable populations; provide healthy food options; promote occupant safety; and increase physical activity.

Why focus on the built environment? Fitwel says the location, design and management of buildings can have a direct, positive impact on occupants’ wellness. Not only does this impact productivity, but can improve employee health and potentially save healthcare costs.

The potential impact is huge: 5.6 million commercial buildings and 120 million employees can benefit, Fitwel says. Out of those workers, 85% spend the entire day at work, averaging 8.1 hours.<sup>8</sup>

<sup>6</sup> <http://plastarc.com/articles/mozilla-open-source-workplace>

<sup>7</sup> <https://fitwel.org/>

<sup>8</sup> <https://fitwel.org/assets/pdf/brochure.pdf>



### **5) Connect with Your Occupants**

Connect with your occupants to discover their thoughts on how the workplace contributes to their productivity.

Real estate professionals can already account for the bottom line, but a detailed survey or other occupant engagement exercise—including social media campaigns, workshops and town halls—are great ways to determine the contribution of real estate toward a company's ultimate business goals.

Among items you might want to discuss include the workplace environment and culture; the physical space's impact on collaboration, productivity, health and happiness; how each employee spends their day within the office; and how employee demographics impact how the space is viewed and used.

We already know how to account for the bottom line, but exercises such as these help form metrics and provide a numerical or quantitative sensibility to the top line.

Conduct these surveys repeatedly and in a variety of formats, because the higher the volume and robustness of top-line metrics, the easier it will be to balance the top line with the bottom line. Our goal is to bring a numerical or quantitative sensibility to top-line matters.

## **CONCLUSION**

If you want your company to remain relevant and competitive going forward, it is critical you pay as much attention to your top line as your bottom line. Commercial real estate plays a significant role in balancing growth and earnings. By partnering with an expert in occupant experience like Savills Studley, we can provide the organizational perspective that allows you to increase occupant satisfaction through real estate decision making.



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