Why Should We Ask this Question?
At a recent seminar Tom Watt, Vice President and Controller of the Aerospace and Communications Division, IIT Ft. Wayne, said to the audience “. . .when my Property Manager walks into my office I see a good friend and competent manager, but I am reminded of an individual and function that represents a significant portion of my operating overhead.” Mr. Watt went on to say “. . .frankly, as Financial Manager, I immediately question myself as to why I need to allocate valuable resources to the property management activities of his unit.” Intuitively, managers such as Mr. Watt believe their property functions contribute to the generation of profits or to the accomplishment of a mission. However, there is little hard evidence to support that view, and some property managers are remarkably inept at communicating the worth of their activities.

How Do Others View Property Management?
When it comes to how our peers view property management, Mr. Watt suggests their views are very closely related to their specific needs and were short term. Half jokingly, Mr. Watt said that in the private world, a CFO doesn’t care at all about government furnished property since it’s not purchased by the company nor is it included on the books as a corporate asset. According to Mr. Watt, “If property is needed by the company for private purposes, the CFO is concerned about the justification and cost. Once approved and added as a depreciable item in the inventory, the CFO has little continuing interest in property management.” Looking at it from an engineer’s perspective, the interest is usually to purchase (yesterday) an item with all the bells and whistles, but, once received, the engineer has no continuing interest in property management. Although delivery time of property may not be priority, the Production Manager’s view may focus on robust performance and design flexibility. Once the equipment is installed into the production line, property management is sometimes considered a distraction to the production manager. Finally, while commercial managers have a vested interest in continuing property controls, the government’s interest in property is governed by rules and regulations and, contrary to the commercial interest noted herein, not the economics or practicality of adhering to generic rules and regulations.

In spite of the obvious differences in perspective, the government holds the trump card in much of what we do as public and private property managers. Part of our problem in communicating our worthiness as property managers stems from a somewhat conflicted relationship within government oversight authorities. As property managers, we sometimes believe the “good news” to be communicated to our senior leaders is that the organization “passed” an essential and periodic third party audit. According to Mr. Watt, when we come forward with that message we have missed the point. The real “good news” to be shared with a CFO, is that the property management function is contributing to the value chain and is adding “value” within the organization.

What Was The CFO’s Message?
Every day we see in the newspapers, on television and in our workplace evidence that organizations are focusing on cost-cutting and employee layoffs. Mr. Watt explained that the property management function needs to be focused...
on value added activity. Derek F. Martin, a management consultant with Pacesetter Management Consulting wrote an article entitled, *Demystifying Value Added*. In this article, Martin explains that while consultants travel around the country touting value-added as the panacea or cure-all for inefficient operations, few people could define value-added in a way that lends itself to practice.

The ability to understand and apply value-added concepts to property management is critical to our success as professionals. The concept of value-added has shaped how organizations consider the relative worth of their operations for much of this decade. It is predicated on the supposition that organizations should spend their energy and financial resources on actions that enhance the worth of the organization and to terminate activities and operational elements that do not. While the principle is obvious, the determination of what activity is value-added and the relative degree of value is difficult to discern for most organizations.

Michael Porter, Professor at Harvard based Bishop William Lawrence University describes in his book, *Competitive Advantage: Creating and Sustaining Performance* that functional organizations vary widely as to where they lie in the “Value-Chain” and how they operate. Porter studied how organizations function and developed a table of activities common to a wide range of operations. He called his table the Value-Chain Model.

All of these activities are vital to the ability of the organization to create value that exceeds the cost of producing and delivering products and services to a customer. Property Managers are key contributors to the overall effort. For example, Property Managers are part of the inbound logistics process – acquisition, receiving, inspection, warehousing and inventory control. Similarly, we are involved in the outbound logistics functions associated with customer deliveries – warehousing, order fulfillment, and delivery. In many ways, Property Managers evidence their importance to their employers on a daily basis, as critical elements of the value infrastructure. As such, Property Managers have to face what I call the “infrastructure challenge” demonstrating that overhead elements can be used to develop a competitive advantage in the marketplace. A useful and timely example is the adoption of Radio Frequency Identification Device (RFID) technology used to improve property record keeping, thereby reducing insurance and property taxes and provide more efficient delivery of needed assets. As Michael Hugos said in his book, *Essentials of Supply,* “…the efficiency of the entire supply chain greatly effects each company’s ability to prosper.”

Every functional manager has to maintain a balance between promised outcomes, costs and risks. The diagnosis of the value-added contributed by specific units is relatively easy in manufacturing functions. It is more difficult to discern in “overhead” functions like property management, due to an inability to directly attribute the costs and benefits of outcomes to specific products of corporate activity. However, at the most basic level we can imagine that no matter what functional activity is considered, value-added has to do with increasing the effectiveness of an asset or process. According to Martin, this fundamental idea has two key components - relevance and quality.

**What are the Components of Value-Added Theory?**

The determination of relevance and quality are necessary considerations in the analysis of value-added activity. To begin with, all operations undertaken by organizational elements must be relevant to the stated goals of the overall organization. While the overall organization may have a formal or informal strategic plan, each component element should ensure it has tactical goals specifically designed to facilitate the accomplishment of the greater strategic objectives. For example, if on-site excess property auctions have evolved to Internet sales, the effort dedicated to preserving the on-site sales practice is not relevant and resources allocated to the effort are wasted. According to Martin, to be relevant organizational activity needs to support the organizational vision, the business objectives, customer needs and the production/delivery process.

On the other hand, relevancy is irrelevant without a consideration of quality. Much has been said about quality over the years and most organizations have published reams of paper describing their quality improvement efforts. Why is quality so important? It is important because all organizational outcomes and products should be accomplished or manufactured to specification. If products do not meet specification, the organization will incur the costs of rework and returns, as well as immeasurable costs of customer dissatisfaction. In the case of a product produced above specification, the functional element may have wasted time and resources producing a “gilded” product or service when simply meeting the specification would suffice. Again, Martin reduced the factors of evaluating the
qualitative contributions of a functional unit to: the usage of the product; the process and defects in the process; and the importance of “brand” and the organization’s image.

How to Identify Value-Added Activity?

According to Michel Baudin, a consultant for the Manufacturing Management and Technology Institute (MMTI), “when applied to a company or to an aggregate of companies, the concept of value-added is clear and quantitative; it is the difference between the price at which goods are sold and the cost of the materials used to make them.”4 Using this formula, business publications constantly speculate about the relative profitability of companies and industries. For instance grocery stores are said to have very low profit margins due to the high costs of getting products to customers while the cosmetic industry has some of the lowest manufacturing margins relative to product pricing and therefore has higher profit margins. Obviously such differences impact wages, employment levels, automation decisions and competitive strategies.

Where value-added becomes most relevant to us as property managers is when an organization extends the application of the concept to the measurement of specific process and operations in the search for value-added and non-value-added contributions. At the most fundamental level, the question of value-added activity relative to other elements isn’t even a factor, but the diagnostic effort is focused on trying to determine if there is or is not value-added contribution. One could get tied up in knots worrying about the criteria of value! Functions such as property management, which don’t transform raw materials into products is often seen as non-value-added because it isn’t something that the customer directly pays for. That is unless the customer is the government or the customer values the greater quality imparted by property inspection and quality assurance.

Just as perplexing is how such non-value-added tasks are interpreted as negatives in the supply management chain. Sadly, the derogatory nature of the label “non-value-added” discourages practitioners who have been painted as such from promoting their efforts. Of course the threat is that all “non-value-added” activities should be eliminated...even those like property management, which are inappropriately labeled, yet necessary to support the primary business of the organization. In reality, our property management activities are critical to our organizations regardless if the organization is public or private. In both cases, the absence of property management would impede production of products and services. The elimination of property management would introduce acquisition and logistical inefficiencies, compromising much of the “value-added” aspects of the organization. Eliminating property management would promote the likelihood of increased waste.

The measure of value may be more associated with avoidance of “waste” than any other measure of value-added activity. Taiichi Ono, author of Toyota Production System: Beyond Large Scale Production, identified seven categories of waste such as correction, waiting and excess just to name a few.5 I have considered those and added a few of my own. Some examples of waste are: acquiring equipment already in the inventory but unidentified to the user; unproductive down-time due to a lack of parts; unnecessary transportation and logistical costs in the relocation of needed property assets; inventory reserves in excess for probable future need; non-production activity associated with searching for and positioning of needed assets; and the production of defective material or intellectual products compromised in the production process attributable to inadequate property resources. If we are ever going to be successful in spreading the good news about property management, we must demonstrate with clear examples of the dollars and cents associated with these categories of waste occurring in our organizations or the waste costs which are being avoided by our organizations because of what we do as property professionals.

Are there other Indices of Value-Added Activity?

Yes, we can look to the supply chain theory for more examples of how property management is a value-added activity. James B. Ayers, author of Handbook of Supply Chain Management describes the theory of constraints previously suggested by Dr. Eli Goldratt, and Robert Fox, founders of the Theory of Constraints Center (TOCC), that a production system can produce no more than its “capacity constrained resource.”6 To explain the concept, the phrase “drum-buffer-rope” was used to demonstrate the principle.7

This model assumes the longest lead-time operation in
the supply chain of manufacturing an item is 60 days. The 60-day process connotes a capacity constrained resource. The 60 days is the capacity constraint. Nothing can be made in less than 60 days, unless that process is managed to reduce the process duration. The process is the “drum.” The drum sets the tempo of the production pace. There is no point in an organization having any other process move faster than the tempo of the drum because that would yield inefficiencies of component manufacturing, logistics and warehousing.

The “buffer” in the model is a mechanism like property management, which helps to ensure production at the pace of the capacity constraint. This protection is inherent in the maintenance and warehousing functions. Timely provision of materials and replacement parts assures normal production at the capacity constrained pace and protects against the potential of unanticipated disruptions in supply. The location of the inventory and the speed at which the assets can be placed where needed, determines the size of the inventory. Property managers keep the physical and intellectual production of our organizations on schedule until the disruption is corrected.

Briefly, the rope in the capacity constrained resource model is the link between production and sales. The rope is used to ensure that production doesn’t exceed demand for the products. While this element of the model has no direct bearing on property management, it does work in concert with the other elements to assure optimal output in the production chain.

**Does Value-Added have a Special Meaning in the Public Sector?**

The principle is the same in the public and private sectors, i.e. value is related to the benefit one receives from a product or service, in exchange for its costs. Accordingly, any action reducing the cost of production and delivery would have value by virtue of increasing “profitability,” however, that may be defined in the public sector. The problem in the public sector is that often costs cannot be as easily identified and collected as they are in private industry. In many instances, there is no public consensus regarding the value of the work funded by the taxpayers. While that generally isn’t the case with regard to, for example, the Park Service, it is clear that there is no agreement on funding of stem cell research, educational testing and environmental programs.

In his book, *Creating Public Value*, Mark Moore describes the issue of public value in two ways: (1) value is created when government agencies use the money and authority given to them to produce things that benefit individuals as they (individuals) see it and (2) that public value is created when agencies satisfy the expectations of citizens and do so in a way that is efficient, fair, open, and with accountability. This vision is useful because it shows that those benefiting from the government’s work - not the organizations performing the work, determine public value. It suggests that processes derived from customer feedback and serve to facilitate access to a better product, represents public value. In addition, opportunities to satisfy public demands for accountability also represent public value. Property management satisfies these definitions of public value. In the first case, property management changes made in response to internal and external customer feedback can enhance value. In the second case, property management relates to organizational and contractor accountability for the custodial care of federal assets. Not much is heard about government property managers who perform their roles responsibly, but the media has a field day when property accountability fails! As a consequence, public institutions expend a lot of non-value-added effort to restore public confidence in the organization’s work. So while private property managers can contribute value by reducing costs of production, public property managers who capably perform their jobs can help their organizations avoid costly non-value-added activities and thereby support their organizations with value-added work.

**Summary – How can Property Management Add Value?**

In this article I have attempted to combine a number of popular management models into a unified concept of value chain management. It should be clear that every organizational element should be focused on maximizing the flow of products and services, starting from raw materials and ideas, through the production creative processes to the customer, and to do so in a way that meets customer expectations. This is the essence of the good news to be spread by property managers. I began this article by quoting Tom Watt, a senior financial manager at ITT who posed questions about the value-added justification for his
property management function. My response to Mr. Watt is that property managers can and should be able to demonstrate how they help an organization reduce its capital expenditures, improve its cash flow, eliminate inefficiencies in the production process, ensure production capability with ready spares inventories, reduce operating costs by controlling inventories and work to improve customer satisfaction by helping the organization meet promised delivery dates. Property Managers can and should prove their value!

In a recent article published on the Internet by Logility Voyager Solutions, entitled, *What are the benefits provided by value chain software?* drawn from a study recently conducted by PRTM, a consulting firm based in Weston, MA, showed that the combined work of functional contributors to the value chain can save a “$600 million company as much as $42 million annually.” The same survey of 225 large manufacturers also found that organizations with competent value chains functioned with 60% fewer days of manufacturing inventory than comparator organizations. I think this study is impressive in that it is clear that property managers can work in unison with others in the organization to add value and maximize the bottom line. I may not have created the perfect road map for the good news to be told by everyone in NPMA, but I have identified a useful set of ideas. These ideas help express how property managers should position themselves to assist their organizations to deliver products, which meet customer expectations — in other words how to engage in quantifiable value-added activities. Use these tools and help spread the good news about value-added property management.

4. Baudin, Michel, article titled Value-Added Versus Non-Value Added Tasks: A useful Distinction, MMTI, 396 Shasta Drive, Palo Alto, CA.