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Six Sigma and Its Application to Commercial Real Estate



by
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—Edward P. O'Connor Jr., SIOR

Six Sigma, a process improvement approach pioneered in the 1980s by Motorola and General Electric to reduce manufacturing errors, is only now finding its way into non-manufacturing professions like health care and real estate. The goal of Six Sigma is to eliminate, or at the very least, minimize (to three per million) the number of errors in a process. A Six Sigma project is grounded in the five chronologically ordered steps known as DMAIC—Define, Measure, Analyze, Improve, and Control.

Critics claim that an approach designed to address manufacturing errors has no place in a profession comprised of error-prone human beings, and thus, a potentially limitless number of uncontrollable variables. But despite such concerns, and despite the fact that implementation of Six Sigma requires

employee training that can be extremely time-consuming and very costly, some proponents in the commercial real estate industry assert that it can be worth every penny in terms of improved cost-efficiency and potential new business. What's more, they note, with a growing number of clients getting on the Six Sigma bandwagon and some even requiring Six Sigma competency as part of their RFP process, SIORs may one day find that they must become conversant in this seemingly esoteric process.

There's another reason to take a good look at Six Sigma—and that's the Sarbanes-Oxley Act of 2002, inspired by corporate scandals such as Enron. “It mandates that chief executives sign off on financial statements to certify they are correct,” notes **John Englert**, president of CMT Consulting,

Rochester, New York, and a member of CoreNet Global, a corporate real estate network organization. "A major component of your balance sheet is your property portfolio. The cost of maintaining a portfolio is also a huge effect on a profit and loss statement. Knowing that processes and controls are in place and measured regularly via Six Sigma creates a comfort level that business processes are performing correctly and providing accurate financial information.

What Six Sigma does, he says, is require you to document your process; it ensures that it is working today, and that there are controls in the process to ensure that it will continue to work. "There are metrics and controls as part of Six Sigma," he explains. "It ferrets out all the defects in the business processes and opens up improvements in processes you didn't even know you had. For example, back-office operations are fraught with problems; as information passes from one area to another, it's all connected through Six Sigma methodology."

To Know Six Sigma Is to Love It

A number of SIORs and other real estate experts who have implemented Six Sigma in their businesses swear by it. "The application of Six Sigma would unquestionably create a competitive advantage for any commercial real estate service provider—as it did for us," says **Edward P. O'Connor, SIOR**, Waterford Property Company, Kansas City, Missouri. "It also creates an advantage for the owners of the properties for whom providers provide service."

"At a high level, the idea of an organization developing a process—really the first step of Six Sigma—works tremendously," says **Louis J. Battagliese, Jr., SIOR**, Flagship Advisory Group, Jackson Cross Partners, King of Prussia, Pennsylvania. "This is particularly true for corporate real estate where you have a corporate entity and users in the field. Documenting the process is very valuable. It gives everyone an idea of where the decision points are, the time frame, and the ground rules."

But Could Six Sigma Apply Specifically to Brokerage?

"Absolutely," says **Jeffrey L. LaFavre, CCIM, SIOR**, United Properties/

ONCOR International, Minneapolis, Minnesota, whose firm provides outsourced real estate services to corporations. "Whether you are a listing agent or a tenant rep, getting up to speed with Six Sigma will not only help you make leases, but it will help you differentiate yourself when you make a presentation; you can show these processes to a client."

More specifically, he says, Six Sigma:

- provides his company tangible evidence of its performance, and can serve as a measuring tool for in-house bonuses;
- has made his people more effective in putting systematic processes and specific training programs in place;

- has given his company a way to measure performance internally year to year, and the improvement it is making in relation to its competition, through benchmarking and surveying based upon those established benchmarks.

The journey, LaFavre says, began several years ago, following conversations with clients about CQI (Continuous Quality Improvement). "We had to become knowledgeable, so we looked at the various tools available to us, as we all seek perfection—or to get as close as we can," he says. His company formed an internal benchmarking team for facility management and transaction management, and recognized this to be a key component of Six Sigma. They then established a relationship with an outside firm conversant in Six Sigma.

"We asked our people, 'What defines world-class service, and who's to say one firm delivers it and one doesn't?'" LaFavre related. "We had a brainstorming session for each of our core services and defined it. Then we mapped out those processes and created a booklet that details our core services. And we created forms to support those processes so we could document our performance."

You Can't Just Jump in

Not just any real estate company can begin to improve through Six Sigma, notes O'Connor. First, it has to become a certain kind of company. For example, for years his own firm had a traditional "silos" structure—president, vice president, property construction, management, etc. "When you reach a certain level of growth, this does not really provide an environment in which your internal service providers can communicate well," he says. "And the customer is nowhere on the organizational chart. That's because everyone is focusing on the next person up."

So O'Connor restructured his firm into a "matrix" organization. "We basically said, the power is not at the head of the division; it resides in the people who are responsible for the customer. So, the person who is responsible for the customer was given the authority. To make Six Sigma work, you must have the right organizational structure."

His firm started measuring customer satisfaction and building performance. "We found that if we solved 20 percent of our mistakes, 80 percent of our failures would go away," he says. As an example, they measured associate satisfaction, figuring if the associates were happy the customers would be happy. "We started measuring it every quarter, rather than every year, and we were able to see the pattern showing the 20 percent of the mistakes that created 80 percent of the problems," O'Connor explains. "Once we eliminated those things, we had 80 percent fewer problems, so we went on to the next issue. We got to the point where we had a two percent turnover two years into the program, where once it had been in the mid-20s."

O'Connor's firm manages 250 buildings in three states. "We measured the satisfaction of every occupant on an ongoing basis," he says. "We hired an outside service provider. After about two years, I could show you a

chart for every single building, its calls for service, its mechanical failures, and its costs—everything about that building. You could see the flaws in our performance and then we were able to address the issue and quantifiably show on a graph how the trend in customer satisfaction went up as we eliminated the flaws.”

No System Is Perfect . . .

As with any business approach, Six Sigma is not perfect—and, in fact, it can be downright daunting, says Battagliese. “When fully applied it goes down to the most minuscule details—and unlike a manufacturing process, it is very difficult to successfully implement a step-by-step, day-by-day measurement of all the misses.”

In addition, he notes, “There are so many things outside of your control. It’s very difficult to control how long it takes a landlord to get back to you with a proposal, or how long a lawyer holds up a lease.”

You definitely can put some metrics in your own activities and improve processes internally, Battagliese says, “But it’s very difficult to do this over outside influences. It can be a seller’s, a tenant’s, or a landlord’s market, with varying degrees of responsiveness.”

When working on a joint venture with a large multinational company, “implementing the process and mapping out the activities was a significant benefit,” he recalls, “but we reached a point of diminishing returns when we tried to apply it all the way through the deal.” They introduced their ‘black belts’ (individuals highly trained in Six Sigma) into the process, and these guys believed that process would overcome everything—including lack of subject matter knowledge. When the process rules all, things can start to break down; a lot of properties are unique.”

O’ Connor concedes that “Six Sigma in its most perfect form is daunting,” but regardless of how extensively you use it, “If you are customer-focused and data-driven in your decisions, you will quantifiably improve every measure of performance—income, revenue, and customer and associate satisfaction.”

Can Outside Entities Be Controlled?

What about the contention that you cannot control outside entities? “I would disagree,” says Englert, “because once you’ve set this in place it influences others on the outside as well. For example, what if a customer puts it into their RFP, and says you must understand Six Sigma? They may demand that all their suppliers and vendors qualify; it starts small, but it evolves into something much larger.”

“Six Sigma is a mentality—a way of managing your business or project activities,” says Englert. “There will be a lot of pressure to include it in your skill set.”

And it does require a new way of thinking, he continues. “Spend a little time understanding the language and how to apply it in a real estate activity,” he recommends. “As people engage in that kind of thinking, whatever the operation, they begin to reason it out, be they brokers, designers, or corporate real estate professionals.”

Think in a New Way

Englert recalls that, at the end of his earliest one-day courses, a senior architectural design engineer told him that the course pointed out that the way he was doing his design process was backwards. He learned that he needs to start his design process by first understanding business processes to ensure they make sense, and desired business results based on clear customer input. Six Sigma forces you to do both. In addition Six Sigma methodology requires process control charts which need to be updated on an ongoing basis to show improvement results. This type of management discipline will motivate people to improve and keep people focused on doing the right things. It also motivates your clients, concludes LaFavre. “You can use hard data to show how you are benefiting your client, rather than just saying you are,” he notes. “And, if you don’t take a look at your internal processes, how can you do a better job of improving the quality of the services you provide?” ♦