

Business Process Enterprise and Small Real Estate Companies

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Abstract

According to the work of Churchill and Lewis (1983), the evolution of a firm follows five stages of growth. As a small company progresses through the first two stages, the entrepreneur/owner and the company act as one unit. Once small companies emerge from the first two stages of growth, they have a choice of entering the success-growth stage of small company growth. At this stage, entrepreneurs can no longer complete all the meaningful tasks themselves. This research will address the problem of how and why entrepreneurial real estate development firms have organized their companies as business process enterprises at this stage of growth.

There is an important distinction between a business process and a business process enterprise. A business process is the way in which a company performs a particular task, such as developing a project or doing a deal. Many real estate firms at the survival stage of growth believe incorrectly that putting in place an individual business process is the same as designing a business process enterprise that positions a company for future growth. A business process enterprise is an orientation in which a set of well functioning processes is linked together to create a strategic service vision.

Three firms that had progressed past the startup stage of growth and were using business processes as a means of managing continued rapid growth were studied. The work of Heskett, Sasser and Schlesinger (1997) was used as a framework to study the cases because the authors see a process enterprise as the way to achieve customer satisfaction. This is done through the creation of a strategic service vision that is carried out through detailed operational service delivery strategies that create measurable value for the customer. Although the firms analyzed by the scholars in this work are large multi-national companies, this research has found that the concepts underlying process enterprise are relevant to small firms. Heskett's service orientation makes that theory particularly relevant to real estate companies at this time. Moreover, this work concludes that a business process enterprise orientation becomes important when a real estate company moves from the survival stage of growth to the success stage of growth.

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Table of Contents

Chapter I- Introduction	
The Problem_____	4
The Importance of Business Process Enterprise_____	5
The Principal Respondents_____	7
Hypothesis_____	8
Methodology_____	9
Chapter II- Literature Review	
Reengineering the Corporation, Hammer and Champy (1983)_____	10
The Service Profit Chain, Heskett, Sasser and Schlesinger (1997)_____	17
Competing by Design by Nadler and Tushman (1997)_____	23
Understanding the Theories_____	27
Customer Focus and Satisfaction_____	27
Organizational Infrastructure of the Firm_____	29
Operational Strategies_____	30
The Importance of Service Orientation_____	34
Relevance of Process Enterprise to Small Companies_____	34
Comparison of the characteristics of the five stages of growth_____	35
Chapter III- Case Studies	
Introduction to case studies_____	38
Case Study #1_____	40
Case Study #2_____	51
Case Study #3_____	59
Chapter IV- Analysis	
Case #1_____	69
Case #2_____	70
Case #3_____	71
Case Comparison_____	73
Customer Focus and Satisfaction_____	73
Organizational Strategies_____	76
Summary of Analysis_____	80
Chapter V-Conclusions_____	83
Bibliography_____	85

Chapter I

Introduction

The Problem

According to the perennial work of Churchill and Lewis (1983), the evolution of an entrepreneurial real estate development firm follows the five stages of growth. They are: Stage I), Existence; Stage II) survival, stage III-D) Success-Disengagement; Stage III-G) Success-Growth; stage IV) Take-off; and Stage V) Resource Maturity. As small company's progress through the first two stages of existence and survival, the entrepreneur/owner and the company act as one unit. Most of the accomplishments of meaningful tasks in the organization are from the efforts of the entrepreneur. Once a small company emerges from the first two stages of growth, it moves to the success stage. During this phase, the entrepreneur has two directions, called sub-stages. During the first sub-stage, the entrepreneur can disengage from the firm, hiring functional managers to whom much of the company's management is then delegated. Alternatively, during the second sub-stage, the entrepreneur leverages the firm's human and financial resources to obtain future growth. When determining the sub-stage to which most real estate developers evolve, one needs look no further than the risk preferences of real estate developers.

A common trait, among all three of the respondents and interviewees, is that the real estate developers have an incredible appetite for risk. These developers are often willing to leverage the existing resources of the firm, and risk its future, in the name of growth. In addition to this appetite for risk, new development deals fuel the investment of new money in the real estate industry. This deal-driven environment, combined with the risk-taking personalities of real estate developers, creates a need for real estate entrepreneurs to move their companies to the success growth sub-stage of small company growth. However, moving from the first two stages of growth can often be difficult because of the

complexity of work, the risks involved, the need to outsource, and the reluctance of owners to relinquish control in various areas.

As small companies enter the success-growth stage of small company growth, entrepreneurs can no longer complete all the meaningful tasks themselves. Instead, they must rethink the way in which the new organization completes work in order for the organization to be successful. Various authors define business process as the combining of resources within the organization to accomplish an end task. A commonly shared view is that a process involves a collection of activities that takes one input or more and creates an output that is valuable to the customer (Keen 1997, p. 17).

Notwithstanding the need for business processes, many small companies never explicitly define the need for process intervention in their organizations. An important distinction to make is the difference between a business process and a business process enterprise. As discussed above a business process is commonly believed to be a combining of resources to accomplish a given task. A business process enterprise is a company that has an organizational orientation that links all of the different business processes throughout the organization together and that focuses the company on each once of the broader elements of a process enterprise. To help understand the broader elements of a business process enterprise, this research will next review three theories of a business process enterprise. This research will address the problem of how and why entrepreneurial real estate development firms have organized their companies as business process enterprises.

The Importance of Business Process Enterprise

There are four reasons why the topic of business process enterprise and small real estate companies is an important and timely issue for study:

1. Real estate is no longer a product-based business. Traditionally organized around specific disciplines, the real estate industry has moved from a product-based to a service-based industry and, like other industries, is currently transforming itself as part of the information economy. This was partially due to economic conditions surrounding the industry. In the late 1980s, lending policies of the savings and loan industry fueled a significant amount of over-building in real estate industry. The recession that followed in the early 1990s, forced the real estate community to reconsider its strategy of 'build it and they will come' (Riddiough, 1999). For the first time, real estate entrepreneurs had to rethink the marketing of services and properties to accommodate the increased power of consumers.

By the mid 1990s, the advent of the Internet and the explosion of available information had propelled real estate into the information economy. Today, many real estate developers who once thought in terms of customer service strategies are now thinking in terms of providing accurate and timely information. In order to implement these information-based customer service strategies, real estate developers must define ways of doing business. This thesis will study how and why entrepreneurial real estate developers organize their businesses around a processes enterprise in order to accommodate the move from provider of products to provider of information. This is not withstanding the fact that goods and services are the basis for the industry.

2. Opportunities for growth are increasing. America is on the verge of the largest transfer of wealth in American history. In 1989, Cornell University economists Robert B. Avery and Michael S. Rendall forecasted bequests of \$10.4 trillion between 1990 and 2040. Much of this transfer of wealth will be in the form of real estate. As real estate transfers from one generation to another, the younger generations will liquidate much of the real estate they inherit. This will allow the development of properties and give real estate entrepreneurs the opportunity for unprecedented growth.

3. More financial resources are now available. Increased amounts of capital (both equity and debt) are available to entrepreneurial real estate developers in the capital markets.

This is largely because pension funds and private investors are finding the risk-adjusted returns of real estate increasingly attractive. These new capital sources give entrepreneurial real estate developers sources for equity that were never before available. However, they are also sophisticated, demanding a greater level of information and accountability than previously required. Thus, in order for key real estate developers to accommodate the demands of these capital sources, company owners must rethink the way in which work is completed. This often involves organizing work around business processes.

4. Little attention has been given to this subject. Although numerous authors, including Hammer, Champy, Nadler, Tushman, Heskett, Sasser, Schlesinger, Keen, Eisenstat, and Spector have studied various concepts of implementing a process enterprise, most of the research has been done within large corporations. Few authors have studied the notion of a process enterprise orientation in an entrepreneurial company and even fewer have studied the use of a process-based organization in real estate development companies. Substantial changes in the real estate industry make further research essential, in order to understand the challenges that small real estate companies face.

The Principal Respondents

In order to demonstrate how small real estate companies could benefit from a business process enterprise approach, organizations selected for field research fit three criteria. They exhibited the characteristics of small entrepreneurial real estate development firms, be experiencing significant growth, and were making a concerted effort to put in place some form of a process enterprise.

First, because there has been little research on the use of a process enterprise approach in small companies, respondent firms must be entrepreneurial real estate development firms run by one or a few founding principals, and not by outside management. Respondents may have also added some other form of business, such as management or consulting to the core development business.

Second, respondent companies must be experiencing, and expect to experience, significant growth. Many companies interviewed have doubled in size in the last year and expect even faster growth in the coming 12 months. This growth came from projects either currently under development, acquired sites under contract, or development projects in the pipeline. Although most companies interviewed felt they were in the success stage of growth, upon further analysis and comparison to the framework provided by Churchill and Lewis, only a small number of firms interviewed met the criteria of a small real estate company firmly rooted in the success stage of growth.

Third, the owners of many small real estate companies are striving to implement forms of business process into their organizations. Case study sites selected represent companies that strategize about the use of process in their organizations, as well as firms that currently have business processes in place. An example of a commonly found business process is that of acquiring a property for development or redevelopment. Most developers interviewed for this research were those at the survival and success growth-sub stage of small company growth who had spent considerable resources to develop a formal process for acquiring properties. These firms began to implement increasingly complex systems and procedures for acquiring properties while experiencing significant growth. This suggests a link between stage of growth and a process enterprise.

Hypothesis

The hypothesis of this thesis is that small real estate developers begin to organize their firms around a business processes enterprise when entering or actively moving from the survival stage to the success-growth stage of growth as defined by Churchill and Lewis (1983).

Methodology

To gain an understanding of this topic, the author took chose four areas of research. After studying the various types of process enterprise, three theories were chosen because of their relevance to the real restate industry and small companies. These theories were described, compared, and applied. Personal and telephone interviews took place to select three small growing real estate development companies that appeared to exhibit characteristics of the success-growth sub-stage. Research on the relevance of process enterprise theory to small firms was conducted through the review of materials and an interview with a scholar on how small real estate firms should deal with growth. Finally, case studies of three small real estate companies believed to be at the success-growth stage were developed.

Companies presented in the case studies were chosen for several reasons. All three firms have experienced a significant amount of growth since the companies were founded. Based on the volume of transactions completed or the total numbers of assets in their portfolio, all three firms have more than doubled in size in the last 12 months. Initial interviews also indicated that all felt themselves to be at the success-growth stage of small company growth. In addition, each firm had a development group of less than 16 people.

Due to the labor-intensive nature of its business, the first case study site has developed a very large organization to manage properties developed and acquired. Two of the three cases have been disguised to provide anonymity to the case hosts.

Chapter II

Literature Review

The first step in understanding how entrepreneurial real estate developers create or use process enterprise in their businesses is to review selected literature about the subject. There is an abundance of material available; as mentioned previously, authors such as Hammer, Champy, Nadler, Tushman, Heskett, Sasser, Schlesinger, Keen, Eisenstat and Spector, among others, have written about process enterprise. This review will compare and contrast several key theories and discuss their relevance in small in real estate companies.

The theories selected include the works of Hammer and Champy (herein referred to as Champy); Heskett, Sasser and Schlesinger (herein referred to as Heskett); and Nadler and Tushman (herein referred to as Nadler). These three theories of process enterprise were chosen because they have remarkable differences and similarities. In addition, they have elements in common that are applicable to entrepreneurial real estate development companies.

Hammer and Champy (1993)

This work is analyzed first because the authors coined the term “process enterprise” in their book *Reengineering the Corporation*. Hammer and Champy see a business process as: The way in which work can be done with the fewest number of people involved in the completion of a process (Hammer and Champy 1993, p. 144). The basis for this work is that mature corporations need to reinvent themselves. The authors define this reinvention process reengineering as: recognizing and discarding the outdated rules and basic assumptions that underlie current business operations. (Hammer and Champy 1993, p3) The authors continue; reengineering is the fundamental rethinking and redesign of business processes to achieve significant improvements in critical areas of performance such as cost, quality, service and speed. (Hammer and Champy 1993, p. 32)

Other authors often refer to Champy's work as the baseline for the process enterprise movement. The presentation of this work is in four key areas: 1) The fundamental forces that cause companies to reengineer; 2) the common traits found in organizations that have reengineered; 3) the 10 changes that commonly occur when companies reengineer; and 4) a prospective about information technology in the reengineering process.

Champy identifies three critical forces changing the way managers rethink their businesses: First, the dominant force in the supplier-customer relationship has shifted. Sellers no longer have the upper hand, customers do. Due to growth, the proliferation of new products and services, access via the Internet, and foreign competition customers now have more choices than ever before. Because of these choices, customers demand products and services tailored to fit their particular needs. The information-rich world, made possible by new technologies, strengthens customer power. Consumers can easily compare products and services offered by an array of suppliers.

Second, increased competition exists in many different forms. Niche players have changed the competitive business landscape. Adequate performance is no longer good enough. If a firm cannot offer a competitive advantage in a given marketplace, it will no longer be able to survive. The increase in the number of start-up companies intensifies the competition phenomena. Start-ups do not have to carry the organizational overhead and can quickly enter new markets before existing companies have recouped their development costs on the last investments. Additionally, start-ups do not have to play by the rules they write the rules. Technology changes the way in which companies compete. When firms use innovative technology in order to streamline transactions between customers, they are able to compete in the marketplace with a strong competitive advantage.

Third, the nature of change has become pervasive and persistent. With the globalization of the economy and the speed of technological transformation, product life cycles have gone from years to months. As a consequence, of the new landscape in which businesses

compete, organizations must be redesigned. In Champy's view, America's business problem is that it is entering the 21st century with companies designed for work during the 19th century. Reengineering a company is the way for companies to meet the demands of customers to achieve dramatic improvements in critical contemporary measurements of performance, such as cost, quality, service, and speed (Hammer and Champy 1993, p. 32). To understand this perspective, it is important to appreciate the nine traits found in organizations that have reengineered their business processes:

1. Companies combine several jobs. There is an integration and compression of many jobs or tasks into one. While tasks are horizontally integrated, the staff now performs an entire process and serves as a single point of contact for the customer. In situations where the company needs several people to complete a process, a case team or group of people with the ability to perform all the parts of a task, completes the process. Because there are fewer people involved with the implementation of a process, monitoring performance is easier.

2. Workers make decisions. Companies that undertake reengineering compress work vertically. Vertical compression means that workers, who previously relied on a hierarchical process to make decisions, now make their own decision. In essence, workers now perform work that supervisors once performed.

3. Performance of steps in the process takes place in a natural order. In reengineering processes, work is sequenced in terms of what needs to follow what, because the linear sequencing of tasks imposes an artificial precedence that slows work down. By "delinearizing" processes, tasks speed up because the completion of many jobs happens simultaneously, reducing the time between steps in a process and reducing the chance that work becomes obsolete during the time between tasks.

4. Processes have multiple versions. There is no one-size-fits-all process. Different process designs meet the demands of different markets. One-size fits all processes are very complex, while a multi-version process is very efficient because the design

addresses only the cases for which it is appropriate. There are no special cases and no exceptions.

5. The performance of work takes place where it makes the most sense. In a traditional company, the organization of work evolves around specialists. In the reengineered organization, work shifts across organization boundaries to individuals, teams, or other firms in the supply chain with the skill sets to perform the work, regardless of organizational boundaries.

6. There is a reduction in checks and controls. Firms that implement a reengineered process use controls that make economic sense. In the traditional organization, the implementation of checks and controls abuses the system but adds no value. Often times, the cost of the controls exceeds the cost of goods purchased. Alternatively, reengineered processes utilize aggregate controls that tolerate modest abuse that delays the detection of abuses by examining cumulative patterns rather than specific situations.

7. There is a minimization of reconciliation. A reengineered process minimizes the need for non-value-adding reconciliation. Firms accomplish this by cutting back the number of external contact points a process includes, thereby reducing the transmission of corrupt data as well as reducing the amount of reconciliation needed.

8. A case manager provides a single point of contact. One reoccurring feature in reengineered firms is a case manager, who acts as a buffer between the complex organizational process and the customer. With access to the entire information system, a case manager takes responsibility for the entire organizational process, answering customer questions and solving problems. In a reengineered organization, the case manager is empowered to get things done. In the traditional organization, the case manager has little access to information and little influence.

9. Hybrid centralized/decentralized operations are prevalent. The ability to combine centralized and decentralized functions is characteristic of the reengineered organization.

This is done by deploying or investing in information technology to integrate centralized and decentralized functions in the same process.

Champy also notes 10 changes that occur in an organization reengineering its business processes.

The first change is that work units evolve from functional departments to process teams. Process teams perform an entire process that, conducted in a logical way, organizes people based on the performance of work. In contrast, many people scattered throughout an organization typically handle each step involved in managing a customer's order. In a reengineered organization, problems such as issues surrounding the development of a project are addressed through teams.

The second change that occurs is that jobs change from single tasks to multidimensional work. Process team workers are collectively responsible for process results rather than individually responsible for tasks. Team members are not responsible for tasks in the process. Teammates share the responsibility of completing the entire task with their entire team. Since workers achieve a greater sense of competition, closure, and accomplishment from their jobs, work becomes more satisfying after reengineering. As work becomes more complex, it has a higher degree of importance to the firm (Hammer and Champy, 1993 p.69). Reengineering eliminates the need for non-value-added work and replaces it with value-added-work.

The third change is that staff member roles change from controlled to empowered. The traditional company hires employees and expects them to follow the rules. A reengineered company does not want employees that follow the rules; instead it wants people who will make their own rules and get things done. Management gives teams the entire responsibility of completing the whole process and the authority to get things done.

The fourth change is that job preparation transforms from training to education. Traditional firms stress teaching workers how to handle a particular task. However, if

people are not required to follow the rules as outlined in the previous change, they will need sufficient education to ensure they know the right thing to do. In reengineered firms, hiring the educated is more important than training (Hammer and Champy, 1993 p. 71). Reengineered companies no longer need people to fill a slot. They need people that can be educated for the changing competitive environment.

The fifth change is that the focus of performance measurement and compensation shifts from activity to results. The traditional firm has a very straightforward form of worker compensation: compensation is based on time worked and seniority. In an organization with reengineered business processes, base salaries stay relatively flat, while pay increases come from rewards for outstanding performance. The measurement of performance comes from the outcomes of that person or that team of people.

The sixth change is that advancement criteria change, from performance to skill. Advancement is not the reward for a job well done. Advancement to another role within the organization is the function of aptitude, not past performance. It is a change, not a reward (Hammer and Champy, 1993 p. 74).

The seventh change that occurs is that values change from protective to productive. Reengineering demands that employees make a strategic shift in the way they think. It requires employees to intuitively believe that they work for their customers, not their bosses. Reengineered organizations base a major part of management's compensation on customer satisfaction. The traditional value of "I am just a cog in a wheel," or "The more direct reports that I have, the more important I am," are inconsistent with the new processes created in the reengineered environment. The attitudes of the reengineered organization must be consistent with "The customers pay our salaries, I will do what it takes to make them happy" or "The buck stops here. I must accept ownership of problems and get them solved."

The eighth change that occurs is that of the manager's position from supervisor to coach. Managers spend less time keeping paperwork moving through the systems and more time

helping employees do work that adds value to the customer. In the reengineered organization, managers must have excellent interpersonal skills and take pride in the accomplishment of their employees and others in the organization.

The ninth change that occurs is that the organizational structure changes from hierarchical to flat. Decisions once made in meetings now take place during the normal course of work. In a reengineered organization, people communicate with whomever they need to. Control remains with the people performing the process. Consequently, in a reengineered company, the organizational structure remains relatively flat. Champy has found that companies that have reengineered have 30 direct reports to each manager, while traditional companies have a direct report ratio of seven to one.

The final change that occurs is that senior management changes from scorekeepers to leaders. Organizations with less hierarchy move executives closer to the customer and front line employees (Hammer and Champy, 1997 p. 79). In a reengineered organization, the successful completion of work depends more on the attitudes and efforts of empowered workers, so executives must be leaders that influence the actions of employees through their words and deeds.

All of the above are enabled by the use of information technology. A company that equates technology with automation cannot reengineer. Today, most managers think deductively, that is, they are good at defining a problem or problems, then seeking and evaluating different solutions. However, the use of information technology requires the use of inductive thinking, which is the ability to first recognize a powerful solution, then seek the problems that it might solve. Information technology, used imaginatively, can illuminate the need for separate, fully formed business units. Moreover, exploiting the use of information technology to solve a business problem is not a one-time event. To effectively incorporate information technology into the organization, a company must equate it with such activities such as research and development or marketing.

Heskett, Sasser and Schlesinger (1997)

The next theory on process enterprise also focuses on satisfying the customer. Heskett presents a very different approach to the process enterprise in the book, *The Service Profit Chain* (1997). Heskett's work is called the service profit chain, because the authors believe there is a strong relationship between the profitability and success of the firm and the job satisfaction of the employees. A critical factor is putting tools in the hands of front-line employees to satisfy the customer. Furthermore, Heskett defines a business process as: anything that helps the firm achieves service excellence and organizational success.

The basis for Heskett's work is that the most important indicator of a firm's profitability is customer loyalty, determined by the customer value equation. This equation states that value delivered to the customer is equal to the cost of the product, plus the quality of the search process for the product in relation to the price of service and other cost associated with the search process.

Five elements are key to this study. These are: 1) six links in the service profit chain; 2) steps needed to internally promote the service profit chain; 3) customer value equation; 4) requirements for managers using the service profit chain; and 5) strategic service vision of the firm. To understand the service profit chain, it is best to look at each link in the chain.

1. Profit and growth are linked to customer loyalty. Heskett believes that customer loyalty is a more important determinate of profit than market share. Support for this conclusion comes from a study from Reichheld, Frederick and Sasser (1990 pp 105-11) where they found that a 5 percent increase in customer loyalty could produce profit increases of 25 to 85 percent. The authors' conclusion was that the quality of market share, as determined by customer loyalty, deserves more attention than the quantities of market share.

2. Customer loyalty is linked to customer satisfaction. Leading service organizations that have quantified customer service satisfaction have found that there is not a constant relationship between customer satisfaction and customer loyalty. Of all the links in the service profit chain, the authors feel that this is the least reliable. For example, descriptions such as competitive price reductions may entice customers away from outstanding service providers, regardless of the levels of satisfaction, customers say that they have experienced.

3. Customer satisfaction is linked to service value. Customers are strongly value oriented and seek results and service process quality that far exceeds the price and acquisition cost they incur for service. Value also has to do with the cost of a service to its user. This includes both price and access cost. Access cost is the cost to the consumer incurred to search out and acquire the product or service. As a result, the authors have found that customer convenience and quick delivery actually outrank price as factors driving customer satisfaction and firm profitability.

4. Service value is linked to employee productivity. The authors have found when the employees of a company are highly productive there is a huge impact on the profitability of the firm. The productivity can be due to workers being flexible to do many different tasks, company practices, or better utilization of the company's resources.

5. Employee loyalty is linked to employee satisfaction. One study of a property casualty company found that 30 percent of all dissatisfied employees registered an intention to leave the company, a potential turnover rate three times higher than that for satisfied employees (Schlesinger 1995 pp 141-49). Given the cost of lost productivity, the authors felt that such an organization could probably justify spending a substantial amount of effort and money to improve employee satisfaction. However, what links to employee satisfaction?

6. Employee satisfaction is linked to internal quality of work life. The measurement of internal quality of work life is the attitudes that employees have toward their jobs,

colleagues and companies. The authors found increasing evidence that the feature employee's value most about their job is capability, is the ability and authority to achieve results for the customer. At Southwest Airline, for example, frontline employees only have to check with a supervisor when they are uncomfortable about possible individual initiatives on behalf of customers. Otherwise, the employees are to act and perhaps check with a supervisor latter. A characteristic of internal quality of work life is the attitudes that employees have toward one another and the way they serve each other inside the company.

Using these six links in the service profit chain requires that managers follow seven steps. These include: 1) measuring the service profit chain relationships; 2) communicating the self-appraisal resulting from this measurement; 3) developing of a "balanced scorecard" of performance measurement; 4) designing efforts to help managers improve service profit chain performance; 5) developing of recognition and rewards tied to established measures; 6) communicating of service profit chain results; and finally the encouraging internal best practices.

The first step in the effective use of the service profit chain is the chain involved consistent measuring of service performance within and between operating units. This requires an organized effort to reach definitions that provide credible measures to the managers using them.

The second step in using the service profit chain is communicating the results of self-appraisal. In order to provide credibility for the measures, once there is an established relationship in the service profit chain between operating units, the results need to be shared across organizational boundaries.

The third step is developing a "balance scorecard." Performance measurement on strictly financial outcomes places too much emphasis on results of past decisions and fails to identify and reward performances that contribute to future financial performance (Kaplan and Norton 1993 pp134-49). To remedy this, Kaplan and Norton recommend a balanced

system that measures non-financial conclusions such as human resources effectiveness, innovation, and customer satisfaction, or loyalty as well as financial outcomes.

The fourth step is enhancing performance. Once managers agree on a balanced scorecard, they can begin to improve performance. These efforts may involve a substantial amount of training around the data itself, as well as ways of effecting outcomes. Efforts may involve improvements in human resource management, the redesign of processes, reorganization of the company's personnel, development of new technologies, or the implementation of new policies.

The fifth step is tying recognition and rewards to measures. In organizations implementing the service profit chain, it is imperative that rewards and recognition be tied to performance measurement. However, completion of this stage usually occurs after the implementation of most other stages in the service profit.

The sixth step is communicating results. The adoption of an open style of management argues for the dissemination of information on results between units. When managers fully accept this style of management, this provides a basis for comparing internal best practice exchanges.

The seventh step for the managers to use in implementing the service profit chain into their organization is encouraging internal best practice exchanges. It is important that managers be able to compare the results of their units to the operational results in other units. The process of continuous improvement through internal best practice comparisons utilizes the full competitive advantage of a large organization with multiple operating units.

The service profit chain is the most basic a prescription for management. The chain is defined as: the value of services to a customer is equal to the results produced for that customer plus the quality of the search process, in relation to the price of the services and

the cost of acquiring those services. Through the use of several important steps, and the service profit equation:

$$\text{Value} = \frac{\text{Results produced for the customer} + \text{Process Quality}}{\text{Price to the Customer} + \text{Cost of Acquiring the Service}}$$

Managers need to build organizational capability and manage operating units to use the service profit chain. This is accomplished in several ways. By performing market research, requesting customer input, and involving customers in the service design, a manager is able to understand the customer needs. Companies were examined with the same set of special needs characterized for all of the customers. Successful implementation of the service value occurred when the manager was able to figure out ways to influence customer decisions by adding value. Much of the organizational work that the authors suggested was associated with service quality improvements. The authors have uncovered methods for measuring returns on investments, expressed in terms of increased profits resulting from reduced customer defections, in various types of actions to enhance value. The underlying principle in this requirement is to sell customers the services they need, not the service that provides the most profit for the company. However, to be successful, these principles need to be flexible.

Not all customers value the same benefits of a service, therefore, there should not be a one-size-fits-all strategy. Heskett believes that the company needs to have several value packages available to different customer segments to add value to the customer value equation. However, value is not synonymous with low prices. The authors suggest that managers must be able to show value to customers, whether they are purchasing something at a discount store such as Wal-Mart, or at a premium goods store such as Nordstrom's. Notwithstanding the need for tailored services, the firm needs to make a profit. Some firms may find that the elements of the value equation offer so little profit, there is little margin for error.

In order to understand the service value equation, it is important to understand the relationship of the service value equation and the strategic service vision. The firm needs to determine whether profit is obtainable at a given level of value and then tie the service value equation to the strategic service vision. This vision comprises four elements. The first element is targeting markets based on how people think, who people are, where they are, where they live, and that their education level is. The second element is service concepts, products, and entire businesses defined in terms of results produced for customers. The third element is operating strategies comprising organizational controls, operating policies, and processes that weigh value to the customers over costs to the offering organization. The fourth element of the service vision is providing delivery systems comprising of bricks and mortar, information systems, and equipment that complement the associated operating strategy. These four elements give a company direction in determining its focus.

In light of this strategic service vision, Heskett determined that companies achieve high profitability by focusing on two strategies: market focus and operational focus. For example, in the early years, Service Master achieved high profitability because it focused almost exclusively on providing cleaning and related support for hospitals. However, in another example, United Parcel Service achieved high profitability because of operating focus. UPS did this by limiting packages to less than 70 pounds and no more than a combined length and girth of 130 inches. The authors noted that companies achieving both market and operational focus are nearly unstoppable.

To accomplish market or operational focus a firm must link the strategic service vision and the service profit chain by creating margin between value and cost. This is accomplished by designing outstanding services around operating strategies that enhance customer value while reducing operating costs.

Nadler and Tushman (1997)

The third theory of a business process enterprise examined in this research is the work completed by David A. Nadler and Michael L. Tushman (1997, p. 14), *Competing by Design*. They define a business process as: The “comprehensive balanced approach to organizational design that recognizes technical requirements, human dynamics and strategic demand of successful design in any organizational business unit”. The organizational design of a firm is how a company gets things done and can be an invaluable tool for shaping the overall look and feel of an organization. The broad dimensions of structure, capacity and performance form the general outline of organizational architecture; strategic organizational design fills in the specific features of how work is organized and coordinated. The conception of architecture is a necessary perspective on the entire strategic organizational design (Nadler 1997, p. 7).

They identify links within the organizational architecture that take the form of organizational processes and systems. There are three broad categories of organizational processes: strategic management, business management, and support management.

The strategic management process includes shaping, directing, and controlling activity at the enterprise level. Strategic planning, general management, resource allocation, and operational reviews are examples of strategic management processes. Processes in this category link and coordinate activities by creating broad plans, providing the resources and guidance which allows business units to network their activities in accordance with the plan, and evaluate if they have met their goals (Nadler 1997, p. 105). The authors see control processes as a set of directions that provide the information necessary for assessment and error correction.

The business management process involves coordinating the flow of work, and the movement of products, services, and resources through an organization and across internal and external boundaries, in order to create value to the customer. An example would be the development of an office building by a real estate developer. The

development process is a combination of both products and services that creates value for the customer and is similar to operational and service delivery strategies found in the theories for Champy and Heskett.

The support management process includes activities such as human resources, public relations, and information management. These provide the policies and procedures that enable the firm to conduct its operations in an orderly way and keep its shared standards and values. It is important to remember that each of the above processes has an associated set of systems. For example, each process must have information systems, production systems, systems for staff selection, and training. The smooth integration of processes and systems determines the organization's capacity to coordinate work. This is consistent with the capabilities/productivity issues raised in the other theories discussed.

Consistent with Champy's emphasis on information technology and Heskett's identification of the need for sharing information, the author believes there are two structural shifts permitting organizations to rethink designs and improve the performance of their organizations. The first shift allowing organizations to rethink the design is information technology. This makes instant access of company information available to thousands of employees simultaneously. Not only does it remove the boundaries of time and geography, it enhances collaboration and teamwork, and eliminates the needs for entire levels of bureaucracy. The creation of a bureaucracy often stems from the need for managers to process information. Information technology provides tools to share information across the entire organization. This information then allows the effective use of teams within the organization.

Teams rely on people to use their collective knowledge, judgment, skill and creativity to perform a variety of tasks with their colleagues (Nadler 1997, p.9). The innovative use of teams is a building block of the new organization design architecture. Flexible architectures and designs that lever competitive strengths will become the ultimate competitive weapons. These themes give the manager who is developing the company's organizational design a framework within which they complete the work.

To help managers in their future organizational design effort, Nadler has come up with a framework for design. That framework is broken down into the ten steps (Nadler, 1997 p.169). A firm must: 1) create a series of statements that can serve as criteria for assessing different designs by generating a design criterion; 2) create, large number of different grouping alternates designed to meet the design criteria by generating grouping alternative; 3) evaluate grouping alternatives; 4) identify coordination requirements by identifying the information processing needs for each grouping alternative; 5) for each grouping alternatives, create a set of structural linking mechanisms that will be responsive to the coordination requirements and will enhance the extent to which the design meets the design criteria; 6) access each alternative in terms of design criteria; modify and refine alternatives and combine alternatives as necessary; 7) access each surviving design alternative in terms of predicting impact on or fit with other organizational components; 8) based on the information collected, eliminate designs, resulting in a first choice design recommendation, and refine the final design as appropriate; 9) identify where operational design needs completion and issues to be addresses by the design; and 10) identify key issues to consider in planning implementation of the design.

Although the design team that goes through the above exercise should consist of experienced people, the most important factor in determining the design is the thought process that goes into making the decisions. As long as the team or group of people uses the framework spelled out above and follow the 10 steps of developing an organizational design, they should be effective.

To appreciate the underlying values for this work it important to understand the author's belief that organizational design is often done badly, because at first glance it seems so simple and intuitive. However, organizational design flows from the understanding of the firm's strategic objectives. In addition, it takes into consideration both the formal and the informal elements of the organizational units involved directly and indirectly the redesign. The design process weights the potential impact on the rest of the organization

and its ability to fulfill strategic goals. This redesign has similar elements to the first two theories.

All three authors would agree that organizational capabilities represent the last true source of competitive advantage, organizational architecture provides a conceptual thinking for employing strategic design to develop organizational capabilities. According to Nadler, design constitutes one of the most powerful tools for shaping performance at every level of the organization. Regardless of the scope or scale, there are certain fundamental concepts that apply to design at every level. A logical sequence of actions and decisions applies to the design process at any level in the organization. There are no perfect designs; the design process requires the weighting of choices and the balancing of tradeoffs. The best designs draw on the knowledge, experience, and expertise of the people throughout the organization. Derailment by ill-planned and poorly executed implementation happens to even the best designs. As continual redesigns become a fact, successful organizations will learn to create flexible architecture that can accommodate constant change.

Understanding the Three Theories

Although the three theories of business process have similarities in which the aspects make up a process enterprise, they differ in the implementation of these aspects. In its most basic form, all three theories define a business process as: A commonly shared view is that a process involves a collection of activities that takes one input or more and creates an output that is valuable to the customer (Keen 1997, p. 17). These theories also seek to explain why selected firms are successful. Each attempts to explain the extent to which process enterprise leads to profitability and success. To compare and contrast the three viewpoints, this research will analyze the areas of congruence among them, and then apply these theories to small real estate development companies.

Although there are variations in their approaches, there are three areas of equivalence in the theories studied: 1) customer focus and customer satisfaction; 2) organizational infrastructure of the firm; and 3) operational strategies. Below is an analysis of how each theory describes these areas.

Customer Focus and Satisfaction

The first area that is similar between all three theories is that the customer is one of the driving forces in the use of a business process. Customers now command more power in the customer-supplier relationship than ever before. This strategic shift in the way that firms do business has forced firms to rethink the use of a business process within the organization. Although each of the theories suggests that customer focus is the leading reason for a movement to the process enterprise, they differ in their reasons why.

Champy

Champy suggests that customers are an important part of the process enterprise because they have the upper hand in the supplier-customer relationship, and will now tell suppliers what they want. The focus of his work is on the streamlining of processes and

creating new roles, like relationship manager, to achieve greater customer value. For most of this century, the idea of a mass market provided manufactures and service providers with the idea that most consumers had the same demands. Consumers that were not satisfied had few other choices. Now, due to increased competition, they have many choices and demand products and services designed for their particular needs. There is no longer the notion of *the* customer; in today's marketplace, there is only *this* customer. The movement of the process enterprise is supported by the fact that individual customers demand to be treated individually. Because of information technology, customers have easy access to databases comparing the information about a large number of products and services. Customers are taking this information and demanding the products and services they want on their terms. Champy suggests that a process enterprise allows a firm to be efficient enough to allow the firms to meet the new demands of the customers. Similarly, Heskett is focused on the customer satisfaction.

Heskett

Heskett sees a process enterprise as the way to achieve customer satisfaction. He found that customer satisfaction is achieved through processes implemented by an organization that gives its employees the ability and motivation to satisfy the customer. This is achieved through a set of relationships within the organization that give front-line employees the tools to satisfy the customer. This is also done through the creation of a service vision that is carried out through detailed operational service delivery strategies that create measurable value for the customer. Nadler's work is also focused on the needs of the customer.

Nadler

Nadler's emphasis is on design as a catalyst for collaboration and the achievement of strategic objectives, particularly with regard to customer satisfaction. This design allows for a high degree of customer satisfaction.

Organization Infrastructure of the Firm

The second area where the three forms of process enterprise are similar is the organization and infrastructure of the firm. The firm's infrastructure includes the financial, human and technical resources in place to support customer a focus that are carried out by a capable and empowered staff that leads to a successful enterprise.

Champy

According to Champy, the firm's infrastructure must incorporate the ideals of being an efficient organization. He found many organizations that were trying to do things faster, better, and at a lower cost. However, before a company implemented a process enterprise, many employees within an organization had nothing to do with meeting the needs of the customers and many tasks in an organization were done to satisfy the internal demands of the company's own organization. In order for companies to implement a process enterprise, an organization must have an efficient organizational infrastructure in place with a set of procedures to guide organizational change.

Champy calls the set of procedures that leads to organizational efficiency, business reengineering. In order for the changes in a business process to be effective, the changes involved in reengineering a company must happen all at once and lead to organizational infrastructures that allow each employee in the organization to add value to the customer.

Heskett

Heskett found that the organizational architecture of the firm must be structured to allow for the success of the customer service relationship. This is accomplished through a series of events by cementing relationships between customers, servers and the service firm. These relationships should be valued so highly by the customer that they are willing to follow service providers to different employers. An example of this would be a patient following a doctor from one office to another.

Nadler

According to Nadler, the design of the organizational architecture is the basis for the implementation of a process enterprise into the organization. In order for a firm to perform successfully, the new organizational design requires collateral technologies. Meaning the firm needs to acquire new leadership skills, new ways for selecting, and developing key people and new human resources tools to assess and reward and new techniques for enhancing the organization ability for cooperative learning (Nadler 1997, p. 9).

Operational Strategies

The third broad area of comparison involves how a firm should operate. To compare operating strategies, there are four areas of analysis: 1) the role of teams and how work is completed; 2) the importance of incentives; 3) the role of information technology; and 4) the importance of continual feedback.

Role of Teams

All three authors would agree that; 1) process teams are the principal organizing unit of the work of the organization; 2) the importance of teams is the ability to draw upon the knowledge and expertise of its members; 3) the work needs to be performed in support of the customer.

Champy has found that teams are nothing more than a series of individuals completing a set of functions related to one another by a common process. Each team member completes an entire process or part of a process and passes the work onto another team member who completes a process. Work is completed by the person or organizations that make the most sense. He has found that as few people as possible should be involved in the completion of a process.

Similarly, Heskett sees teams as groups of individuals who are paired together in an effort to better serve the customer. Teams are formed to improve an organization's relationships with the customer and give it more flexibility in dealing with its customers. Work is completed where it produces the most value to the customer. Front-line employees should be given the tools necessary to complete the work to satisfy the customer.

Nadler has found teams to be an important element of the operating strategy of the firm. They are the basic building blocks for the new architecture of the firm. The essence of teams is to use combined knowledge, judgment, skill and creativity to perform an array of tasks, rather than just one in conjunction with their colleagues (Nadler 1997 p. 9). The use of teams a type of technology and allows work to be done where it makes the most sense

Incentives

Although incentives place a critical role, for all three authors the rationale for and the form of incentives differ. Champy has found that the focus of performance measurement and compensation shifts from activities to results. A company that reengineers its business processes pays employees based on results. Base salaries, in companies with reengineered processes, tend to remain relatively flat, after adjustments for inflation. A critical part of the operational strategies in these companies is that substantial rewards for outstanding performance take the form of bonuses, not pay raises.

Heskett states that incentives need to be based on the notion of creating customer loyalty and are based on the satisfaction of the customer. His theory suggests systems need to be in place to measure customer satisfaction and employees need to be compensated based on that system. In addition, recognition is a type of compensation for employees and employees should be recognized for outstanding customer service.

Similarly, Nadler emphasizes that an important part of implementing a process enterprise is that the firm has incentives that clearly link performance to pay and should directly link performance to specific values and objectives (Nadler 1997 p. 107). Rewards should be directly linked to objectives that are within the group or individual's power to control and be built into the organizational structure of the firm. The third area of operating strategy, that the three theories of process enterprise have in common, is the importance of the information technology.

Information Technology

All three theories of process enterprise place importance on information technology as a crucial part of operating strategies. Although each of the theories states information technology has a different role in the organization, they are all geared toward to improving customer service and empowering the employee.

A central theme in Champy's work is the role of information technology. A company must change the way it thinks about information technology in order to implement a process enterprise. Information technology enables companies to reengineer their business processes, and demands that managers think inductively. That is, managers must recognize a powerful solution and then seek problems that it might solve. Information technology allows information to be shared instantaneously across organizations; it also, allows a generalist to do the work of an expert. It allows a firm to be more efficient in the way in which it does work, gives everyone in the organization the ability to make decisions, and permits the efficient use of all company resources.

Heskett points out that information technology is critical to the success of a process enterprise implementation. However, information technology is more than a tool for getting work done efficiently. It is a tool that allows front-line employees to provide a higher level of satisfaction to its customers and permits the enhancement of customer loyalty and thereby firm profitability. Information technology puts tools in the hands of employees so they react instantaneously to meet the needs of the customer.

Nadler also emphasizes that information technology is an important part of a process enterprise. Information technology makes it possible for companies to make timely information available to all employees across geographic and organizational boundaries. It enhances teamwork in the organization and eliminates the need for entire levels of bureaucracy within the organization, whose role previously was to compile and disseminate information.

Continual feedback

All three have found the use of continual feedback an important part of a process enterprise orientation. Feedback must be completed on a regular basis and the results disseminated throughout the organization to be effective.

Champy has found that an important area of feedback is education. Firms need to change the role of job preparation in an organization from training to education because it increases employees' insights and understanding of the way in which work is completed. Another important area of feedback is that executives in an organization change from scorekeepers to leaders. With the use of information technology, leaders give feedback to employees in the organization, which allows the organization to operate more efficiently.

Feedback allows for the continuous improvement of the organization by allowing the firm to give employees a higher degree of job satisfaction, thereby giving customers a higher degree of customer service. Heskett has also found that feedback plays an important role in the organization. Therefore, steps must be taken to ensure feedback from both employees and customers reaches people within the organization.

Nadler also states that feedback is important to the operating strategies of the organization. He points out that this is accomplished by an organizational design that allows organizations to correct errors and even change themselves.

To gain a better understanding of business process enterprise and small companies, this research will apply one of the three theories presented as a framework for the remainder of this report.

The Importance of Service Orientation

Heskett's work will be used to analyze the remaining of this research for three reasons:

1) The work is based on the importance of a service orientation to satisfy the customer. The nature of the firms studied for this research was a service-oriented business, therefore, Heskett's theory is very relevant to the study of small companies because the work focuses on the customer with a service orientation which is valued widely by real estate consumers today; 2) The work contains elements of the other authors' theories. As can be seen from the areas of congruence, Heskett's work is very consistent with the other two theories; and 3) The basis for Heskett's work is customer focus. Due to the desire of small companies to keep their businesses a growing concern, most small companies studied place a high degree of importance on being customer-oriented. All three theories are customer focused. The difference is that Heskett has developed a service profit chain that makes sense in the context of industry restructuring and for small industry players.

Relevance of Process Enterprise to Small Companies

Churchill and Lewis found that small companies go through a series of changes as the companies grow. Churchill and Lewis break these changes down into five stages of growth. The stages of growth are existence, survival, success-growth, success disengagement, take-off, and resource maturity. As a small company grows, it exhibits different traits. These traits reflect that a company is at a different stage of growth. A matrix has been provided below to show the different traits of a company during the various stages of small company growth.

Comparison of the characteristics of the five stages of growth

Company traits at various stages of growth¹

Stage of Growth	Owners ability to delegate	Level of Strategic Planning	Importance of Cash	Owners ability to do	Systems and Controls	Matching of business and personal goals
Existence	None -Direct Supervision	None	Extremely	Everyone reports to owner	None	Perfectly aligned
Survival	Supervised Supervision	Cash Forecasting	Very	Forman carry's out well defined orders	Owner makes all decisions	Closely aligned
Success-Growth	Involved in all aspects of the firm	Extensive and deeply involves the owner	Risks cash for future growth	Hire managers based on future conditions	Installed for forthcoming needs	Owner marshals company resources for future growth of firm
Success-Disengagement	Owner removed from daily operations	Maintain existing business	Cash is plentiful	Hires functional managers	Maintain the status quo	Moving apart
Take-off	Key managers must handle complex business	Being done by and involve specific managers	Cash must be able to meet the demands that growth brings	Owner often replaced by a professional because of inability to delegate	Systems are more define and extensive	Company and owner separate but owner dominates company by stock control
Resource Maturity	Management is decentralize adequately staffed and experienced	Detailed strategic planning	Must control financial gains brought upon by rapid growth	The owner and the business are separate operationally and financially	Extensive and well developed	Separate

Source: Churchill and Lewis (1983)

Heskett's work is relevant during the existence stage because the owner needs to work on making the business an entity that can support itself. During this stage, the company's main problem is keeping customers and delivering the products or services contracted. As suggested by Heskett's work, to do this it is necessary to focus on the customer and the relationships of the service profit chain to ensure the business can move to the survival stage of small company growth. In addition, the owner performs all the meaningful tasks. The company is in the earliest stages of thinking about the need for a process enterprise.

¹ Dr. Edward Marram, a professor of managing business growth at the Entrepreneurship Center at Babson College and CEO of Geo Centers, both in Wellesley, MA was interviewed to verify the relevance of Churchill and Lewis to this study. According to Dr. Marram, the two major issues that small companies deal with when growing is the need for cash and the ability to delegate. As can be seen from the matrix, Dr. Marram's views are consistent with the work of Churchill and Lewis.

During the survival stage of small company growth, the owner of a small company handles many of the meaningful relationships, including customer interactions. Continual contact with the customer during this stage of growth allows for instantaneous feedback on the level of customer service provided, thus allowing a high degree of customer satisfaction. This is the basis for Heskett's work. In addition, during this stage, process enterprise is becoming more relevant because the owner is looking for ways in which the highest degree of customer service can be provided in order to grow the business. Because the owner now has staff in supervisory roles to carry out specific tasks, the firm can consider its needs to enhance the internal quality of work life that allows its employees to deliver a high degree of customer service.

As the firm enters the success growth stage of small company growth, Heskett's work becomes more important because the owner of the company begins to effectively delegate many of the tasks involved in running the organization. To continue to deliver the highest degree of customer satisfaction to the customer the company must begin to implement business processes. The owner hires managers based on the future company needs and focuses on the strategic plans of the company. The empowerment of front-line employees during the success-growth stage of small company growth makes the process enterprise concept and Heskett's work crucial to small companies. This includes the need to have tools and systems available to support their work.

During the interviews, people often saw their companies as successful in one of the first two stages of growth; but after carefully reviewing the above matrix, the owner of a small company would see that it was at the survival stage of small company growth. It is important to understand that being a successful company and being in the success stage of growth is not the same. This is highlighted by the fact that the owners of small companies that are profitable often have a difficult time delegating tasks. Another indication that a small company is not at the success stage of growth is that the owners of many small firms make all decisions affecting the cash flow and strategic planning of the company. A common trait for a company at the success-growth stage would be that the owner and the firm are no longer considered the same entity. However, in the case of

many small companies the owner and the company are synonymous. This lack of delegation, and therefore, empowerment of front-line employees also makes it difficult to see the relevance of a process enterprise theory until the success stage of small company growth.

Since the focus of this research is not the success-disengagement, take-off, and resource maturity stages of growth, the applicability of Heskett's work to these three stages will not be presented. Because of the importance of customers to small companies and the significance of service and customer orientation in Heskett's work, the remainder of this research will use this work as a lens to study the use of process enterprise in small companies. The service profit chain and the strategic service vision will be key frameworks for the research.

Chapter III

Case Studies

Introduction to the Case Studies

The interview protocol was based on a set of qualitative questions. Whenever possible, the three firms were asked the same questions. Due to the small size of two of the development companies, nearly everyone in the organization that dealt with the development of new properties was interviewed. Company principals were asked all questions in the interview protocol, while junior people were asked questions that related to their overall expertise and how they viewed the strategic direction of the company.

All three firms were considered successful by their peers. This was determined through a series of informational interviews with industry professionals. Using the article by Churchill and Lewis (1983), describing the stages of small company growth for comparison, the firms appeared to be at the success growth sub-stage of small company growth. The three most notable characteristics of this stage of growth suggest that: 1) the company marshals the firms resources firm for growth; 2) the company risks its financial future for growth; and 3) the entrepreneur believed that s/he is at the success-growth stage of small company growth.

All three firms were primarily involved in the real estate development business. Two were commercial real estate developers and the third a developer and manager of assisted living facilities. In the first case study, the developer chose to manage its own facilities, and provided property management services for other developers and owners of assisted living facilities. In the other two studies, the developers chose to outsource the property management function. Due to the cyclical nature of the real estate business, many of the issues facing these three companies could be a function of real estate as an asset class in general.

Before interviews with the three case firms were conducted, an extensive number of interviews were completed with industry professionals in person and by phone to determine which companies had progressed past the existence/survival stage of growth. In addition, before on-site interviews were conducted, extensive background research was done to gain a broad understanding of each company. Wherever possible, the interviews started with the entrepreneur that founded the small company.

Case Study #1

Company Background

Benchmark was started in 1997, immediately after CEO Tom Grape sold ADS Senior Housing in 1996. The company is a developer of assisted living facilities in New England. Grape founded ADS Senior Housing in 1991. When sold, it had more than 1000 units in its portfolio and was the largest operator of senior housing in New England. The CEO founded two companies under the Benchmark umbrella in 1997. Benchmark Assisted Living, a management/development company, was designed to manage and develop assisted living properties that the company developed. This company was owned by the CEO and five of the senior employees in the company. All employees at Benchmark Assisted Living were employed by this entity.

A second company called Benchmark Investments LLC, owned the real estate. This company was designed as an investment vehicle for the capital partner, a Boston-based pension fund advisor that invested money from institutions and pension funds in several different types of real estate investments. Benchmark Investments LLC was a joint venture between the senior management (five percent) and a capital partner (95 percent). Benchmark Investments LLC was well capitalized upon its inception to insure the funding of several years of projects. The decision to have two separate companies grew out of CEO's experience at ADS Senior Housing. According to Grape, the dual company arrangement was designed to build value in both the real estate investment business and the management/ development business. In essence, he felt that the concept allowed him to spread the risk of the business venture between the two companies.

Benchmark opened its first facility in July of 1998 in Centerville, Massachusetts. Because it took up to 24 months from the due diligence phase to project completion, over half of Benchmark's properties went into operation or broke ground in 1999.

Benchmark was founded with two employees. Over the next three and a half years, the company grew to 600 employees at 16 facilities in all six of the New England states. Approximately 10 to 12 of the employees were devoted to development of the facilities or financing, the remainder worked on the management of the facilities. Each facility had between 45 and 90 units. This design provided a more homelike feel, as opposed to a larger facility with long hallways that would have felt like an institutional facility. In addition to the properties developed, the company managed three properties for third parties. Each facility employed approximately forty people. A large on-site organization was necessary in each of the 11 facilities currently under operation, because a large staff was available around the clock. The facilities also provided three meals a day, some with a program to care for the memory impaired.

Benchmark's Growth Strategy

Since Benchmark's inception, the growth strategy had been to develop five projects, acquire three existing facilities, and add three new management accounts each year. The CEO's industry experience and clear vision had led to a consistent growth strategy for Benchmark. Consistent with this strategy, in the summer of 2000, the company had six properties under development that were slated to open within the following 12 months. In addition, six more facilities were in one stage or another of the approval phase and were projected to open in the following 24 months.

Initially, the firm built the facilities from the ground up. As these opportunities become scarcer, the company considered more acquisitions and redevelopment projects.

Redevelopment projects brought additional complexity, including what to do with residents when the project was underway, as well as additional construction difficulties.

Acquisitions and redevelopments were a natural extension of developing new assisted living facilities and allowed the company to continue to reach its growth goals.

Benchmark wanted to be the number one quality service provider of assisted living in New England, however, the firm's ability to grow came from the capital markets; the more funds that Benchmark had at its disposal the more aggressive the firm was with its

growth. By 2000, there were several events in the capital markets, which were slowing the growth of assisted living companies.

Too much capital caused overbuilding in the marketplace. In addition, senior housing companies that had gone public missed earnings estimates and hurt stock prices. This, in turn, made it difficult for assisted living developers to raise capital. Finally, some public nursing home companies were forced to file bankruptcy. Because it was commonly believed to be a related industry, this had certain negative spillover effects in the capital markets for assisted housing. However, because of Benchmark's reputation and joint venture with its equity partner, the company did not experience these problems.

The CEO felt that Benchmark's access to the capital, experienced people within the organization, and the number of opportunities available in the region allowed the company to have excellent growth prospects. Those growth prospects were quickly realized.

From July of 1998 to July of 2000, the company opened a new facility every two months. The CEO thought carefully about how to put business processes in place to maintain that growth. This included planning for growth. As an example, after hiring an executive assistant, Benchmark hired a director of market planning (DMP) as the third employee whose role was to ensure that the company only entered markets with enough demand to warrant the existence of another assisted living facility.

To determine if the market was one that Benchmark wanted to develop, the DMP prepared a Part I Market Overview. The report outlined whether the company should enter a geographic market without regard to a specific site, if the area was one where Benchmark could gain competitive advantage, and the company was able to bring a property under a letter of intent, the DMP prepared a Part II Market Overview that provided more detail. This report was for a specific site the company had under contract and contained a recommended number of units and rents that the market could absorb. These overviews continued to guide the company's growth.

According to the CEO, the size of the organization required that the growth strategy be clearly articulated to senior management to be effective. Because of the interrelated roles of developing and managing an assisted living facility, the entire senior management team helped to carry out the growth strategy. For example, all members of the management team helped locate potential development sites, as well as potential third-party management business.

The company's growth effected how the company handled its operating strategy. An example of this was that the company had to hire people earlier than originally anticipated. Third-party property management was an important part of the firm's growth strategy. When the company managed facilities for other investors/developers, it gave Benchmark a better knowledge of the market as a whole and helped the company reach its growth goals. For example, the company found out about acquisition candidates that would not otherwise be obvious.

Customer Focus

Because of the CEO's experience in consumer products, and as principal of ADS Senior Housing and in consumer products, he felt that the customers must receive first-rate service. The customer service strategy had always been to provide the adult children of the residents and the residents with the best service in the industry. The firm's dedication to quality service was highlighted in two ways. First, the companies web site address, benchmarkquality.com, showed its customers it was committed to quality. Second, it used the Benchmark Quality Service (BQS) trademark as a way to communicate its commitment to customers and employees.

In addition, the partners felt the equity investor was a customer. As the firm secured the relationship with the capital partner and adequately capitalized it, senior management was able to focus more on its primary customer, the elderly residents of the assisted living facilities and their adult children. Based on experience in the industry, Benchmark

considered the adult children of residents to be the customers because they made decisions to move their parents into an assisted living facility. The CEO felt that having two customers was not a conflict of interest but merely the way the business operated. Moreover, an important part of the way the company operated was the BQS standards.

An important element of customer focus since the company's inception was the Benchmark Quality Service (BQS) standards. BQS allowed the company to clearly articulate its customer focus to employees. The standards were initially designed by the partners, but were improved by feedback from the staff, including the BQS team. The BQS team included people throughout the organization, insuring that everyone was trained on the various aspects of the BQS standards. These standards helped the company focus on its primary customers, the residents and their adult children and insured that the company maintained the highest quality standards. Benchmark felt that, since the company had a clear definition of who the customer was, it was able to easily articulate its operating strategy its employees. Benchmark reinforced the BQS standards with training. The training was extensive and took place immediately upon employment.

Operating Strategy and Business Process Design

The average project was close to 40,000 square feet and took approximately 10 months to complete. Due to the complexities during the development process, it was easy to overlook one of the many details involved in building a complex assisted living facility. In order to insure that the firm had sufficient expertise in all areas of building an assisted living project, the CEO hired a third-party development company to act as developer for its early projects. The developers then hired a construction manager, who oversaw the on site construction work which was done by a general contractor. Typically, the construction manager and the developer were the same company. Benchmark believed that this allowed the project to be built in a timely manner. In an attempt to lock in construction costs, Benchmark also preferred to operate on a guaranteed maximum price (GMP) contract basis

In January of 1998, Benchmark hired its first project manager, who interfaced with the developer. The project manager handled a project from the time a member of the development team identified the site as a potential location, until the completion of the one-year warranty inspection. This process, from the time that a site was identified until the time in which the one-year warranty inspection took place, was expected to take three years. The project manager was also responsible for all aspects of the development project. This included tasks such as negotiating with brokers and land sellers, as well as all other facets involved in developing a property. The role of the project manager was to ensure all phases of a project received adequate attention and to be the contact person for all of the team members involved in the development process. The entire development team looked for ways to develop a project that made the job of the onsite managers easier.

Before the time that construction began, the project manager worked with the company architect, various consultants, and the director of market planning to develop a proposed development report. This report outlined the project in detail, including expected development budget, expected operating budget, a 10-year IRR projection, site quality, product niche, investment criteria, portfolio strategy, and investment risk and timetable. The project manager was responsible for preparing the final proposed development report. This report was presented to the capital partner for approval, and if accepted, became the development guide for the project manager. The report also served as a proposal to lenders to secure first mortgages (debt). In addition, the project manager handled three to five projects in various stages of development. As each project was developed, the project manager prepared a monthly project summary, which outlined the status of all projects in the pipeline.

The monthly project summary went into great depth on all financial and operational aspects of the project. Due to the company's growth, in January of 1999, the SVPD hired a second project manager and refined the process for developing a project. At that time, there were three parts of the development process: due diligence, approvals, and construction. In the second quarter of 2000, the process was broken down into five

stages: early due diligence, full due diligence, local approvals, designs, and construction. This further enhanced the amount of information that Benchmark gave to its capital partners and their ability to assess the risks associated with developing each project.

In September of 1998, Benchmark hired a senior vice president of development (SVPD) who later became a partner in Benchmark Assisted Living. The SVPD was hired to oversee the entire development process in the organization and move all development functions of the firm in-house. The third-party developers the firm was hiring were not adding as much value to the company as originally anticipated, and many of the functions handled by third-party developers were already being done by the in-house project managers. The SVPD brought a greater degree of consistency to the implementation of the monthly project summary by holding monthly meetings to discuss the status of each construction project with the project managers in advance of its preparation.

In January of 1999, the development team also hired a director of design. A liaison between the company and the various consultants in the design community, he ensured that the property was being developed with the correct elements and features according to the BQS standard. This design improvement process required feedback from everyone in the organization and was a hallmark in the way that Benchmark operated. One example of this continuous improvement process was the clustering of apartments around sitting rooms that allowed for a more community feel. Another example involved the customization of facilities. Although each facility met the BQS standard, no two properties were designed alike. This ensured that each property fit into its surroundings to provide the highest degree of comfort to residents and, in addition, be well received by the local community.

Teams

As the company grew larger and more complex, the role of teams became more important. In addition to the teams that evolved around the development of a project, the company used teams for many other components of its operating strategy. There were more specialists within the organization, and the company found that a team of people

could do things more effectively. For example, the company used teams to operate each facility.

Each property was operated by an executive director who handled the entire property team concept. Another example of the company's team approach was the BQS team. This team of people ensured that quality standards for the entire company were met. Each member brought a unique set of skills to a team. The partners felt that the use of teams was the most effective way to handle a completion of task throughout the organization because it allowed specialists from around the company to add value.

The key to the development process and the use of teams were the project managers, who had access to all the resources available to the company in an effort to develop the project smoothly. The project development team consisted of the project manager, external third-party consultants, and people within the organization to make the project run as smooth as possible. External teams were an important part of the company's growth strategy; they allowed resources to be added as needed. Teams were formed on a free-flowing, as-needed basis. The partners saw teams as tools to ensure the highest level of customer service. An importance aspect in the development of a project and the company in general, however, was incentives.

Incentives

Another important part of the operating strategy within the company was the role of incentives. The project managers had always received a bonus every time the construction of a project started. This incentive ensured that once the company dedicated its resources to the various phases of a project, the project managers were motivated to see the timely start of construction. The incentives were paid 40 percent at the time they closed the construction loan, 40 percent when Benchmark was paid the development fee and 20 percent when the project was completed.

Since the company was founded, select employees took part in a phantom stock program whereby key employees were given phantom stock in Benchmark Assisted Living.

Employees invited to participate in this program were chosen by the senior management team. Moreover, everyone in the home office took part in the phantom stock program. The intention of the phantom stock program was to align the long-term interests of the company with the long-term interests of the employees. The company also gave non-financial incentives such as personal accolades and small gifts for a job well done. In addition, the company was always seeking new forms of incentives.

In addition to the incentives outlined above, in January 1999, the senior management team instituted a short-term incentive package. This package was limited to only those people in the corporate office, approximately 30 people, including the entire development team. The package was based on a quarterly goal system, whereby each department within the organization would set a goal. At the close of the quarter, they reviewed the performance over the last quarter and set a goal for the next quarter. Fifty percent of the bonus would come from the department performance and fifty percent of an individual's bonus would come from the performance of the company as a whole. Up to three percent of an employee's total annual pay was earned from these quarterly bonuses.

At the end of 1999, the senior management team decided to abandon this incentive package because it was not influencing people's behavior in the manner anticipated, such as increasing collaboration among staff or improving productivity. The CFO indicated that the company wanted to figure out another incentive package for the employees to participate in, but due to time constraints and other more pressing matters, the company had not evaluated the matter further.

The Role of Information Technology

The company opened or started construction of half of its facilities in 1999, which prompted Benchmark to hire a controller in June of 1998 who also took responsibility for the firm's information technology strategy. Due to the large numbers of financial transactions associated with the management of facilities, the company expected increased accounting complexities in the future. At the time the controller started, the

extent that the development team used technology was limited to basic productivity tools such as: Microsoft Word/Excel, cell phones, and personal digital assistants.

After a review of the development team's technological needs and the fact that the development process was based primarily on personal relationships the use of information technology was not considered a strategic part of the development team's success. Similarly, although the firm had developed a comprehensive web site for the marketing of its various facilities and other promotional material, the firm concluded, from the feedback gained from the BQS standards, that the elderly residents and their adult children were more interested in the quality service the residents would receive. However, information technology remained important to the overall operation strategy of Benchmark.

Having real time information on company operations was extremely important to the operating strategy of Benchmark. At the time the controller started, the company did not fully utilize email, was not operating on a network, and it was still developing its web site. To effectively deal with the ensuing growth, the senior management team felt the company needed to have vast amount information available instantaneously for its own use and the use of its capital partners to insure that the properties were being managed effectively.

The company made two critical changes to accommodate for this need of instant information for faster decision making. These changes were made to help the company deliver a high degree of customer satisfaction. First, Benchmark implemented a centralized company wide information system with dial-up capabilities that allowed the entire company to share financial and other information. This permitted the company to keep itself and its equity partners informed on the operations of the facilities, allowed for consistent reporting, and instilled a higher degree of centralized security. The second change in information technology strategy was the installation of a web-based email system, this allowed for greater ease of communication across the company.

Customer Service Delivery and Business Process Design

The use of business process design at Benchmark revolved around the Benchmark Quality Service (BQS) standards. As mentioned earlier, these were a set of standards used to give the company guidance on how to provide the highest degree of customer satisfaction. The BQS team was developed to ensure that the standards were followed. The team pledged that the BQS standards were adhered to by ensuring that resident care, food services, maintenance, customer service, and human resources stuck to a set of standards developed by the team. This was done through continuous training and monthly quality assurance meetings.

These standards were verified by monthly quality assurance meetings and performance and improvement initiatives within the organization. Customer service surveys were performed with residents on a regular basis to give the BQS team feedback on the firm's performance. To ensure the way in which the company developed and managed facilities provided the highest amount of customer satisfaction available, the BQS team shared information on the best practices learned from teams across the organization. This allowed each facility to benefit from information acquired by the BQS team.

Case Study #2²

Company Background:

Paris Investments Group was founded in 1976, by brothers Joe Dinovo and Jerry Dinovo, and began developing residential housing in Europe and later in Texas. In 1986, the firm began purchasing, repositioning, and selling all forms of commercial real estate. In an effort to expand into markets and still have local expertise in those areas, the Dinovo's formed partnerships that were affiliated with Paris Investments Group. They called this approach "Concept Paris." In 1997, the brothers entered the Chicago real estate market when they formed an affiliated company, called Paris Chicago Investments (Paris), with Kevin Gaurdia, who had accumulated thirteen years of experience in the real estate development industry. Paris started as a real estate developer who specialized in investing equity from Italian high net worth individuals in Chicago real estate.

When Paris was founded in 1997, the main objective was to attract Italian investors to the Chicago real estate market. The firm was formed to pursue any real estate-related opportunity, and to think in terms of returns, not real estate. This was done by acquiring buildings, then renovating, leasing and selling them as quickly as possible, typically 12 to 24 months. The target project size was one where the total redevelopment costs ranged from \$3 to \$15 million.

Each of the three partners owned equal shares of Paris. Gaurdia was named executive vice president/ managing partner (EVP), and was responsible for putting together, developing and overseeing the deals, while the Dinovo brothers were responsible for raising money from the equity investors and providing some of the back office accounting support from their offices in Texas. By 2000, Paris felt that the holding period for investments had extended to four to six years. Paris believed this extension was necessary because there were not as many opportunities to quickly get in and out of a project.

² The facts of the case and the parties involved have been changed to provide anonymity to the hosts. This case has been produced only for the use of this thesis.

Paris's Growth Strategy

Paris had no formal business plan. The partners thought a business plan would put them inside a box and would not allow them to be flexible to move where the opportunities were. Although where the firm got its capital had changed since the company's inception, the business strategy had not.

Although Paris never had formal plans for its growth strategy, the principals articulated its business strategy as "to do good and interesting business with good and interesting people," their business strategy included investing in all types of commercial real estate and different risk profiles. This strategy was turned into actionable steps and an operating strategy by having consistent access to capital, a good reputation in the market place, and the ability to execute transactions, and by being entrepreneurial in the business environment. This led Paris to believe there was more money to be made if they did more deals rather than improving the methods of handling deals that they had in place.

In October of 1997, Gaurdia hired a development consultant to complete the analysis on acquisition candidates. Because of Gaurdia's experience in the early 1990s Chicago real estate recession, he felt that it was crucial for Paris to have as few people on staff to remain as flexible as possible. An example of this was that the firm always had only one administrative employee. By March of 1998, however, the company's growth warranted hiring a person to handle the deals once they were closed. The consultant was hired as vice president of development (VPD) at this time. Subsequently, he stopped working as a consultant, to implement repositioning strategies for the projects once Gaurdia closed on the deals.

By March of 1999, the company was growing rapidly and Gaurdia needed more help underwriting deals. The company once again engaged a consultant, in this case, to provide underwriting and help Gaurdia prepare all documentation necessary to raise equity and debt. In July of 2000, this consultant was hired to support Gaurdia's underwriting process.

To ensure that the company was meeting its goals of having consistent access to capital to close transactions, the firm brought on Jason Boyd as a partner of Paris in June of 1999 to raise additional equity. He spent eight years heading the capital markets group of a Chicago-based pension fund advisor. Boyd was hired to help diversify the equity sources of Paris. Using his experience and contacts in the market place, he expanded the firm's equity partners to include US high net worth individuals and pension funds and Italian banks and insurance companies. By increasing the amount of equity the company had and the number of deals the company was looking to acquire, it ensured a constant revenue stream. The company felt that this consistent revenue stream was one trait of a successful company and an important aspect in the growth of the company.

Due to the overwhelming growth in real estate opportunities in the Chicago area, one of the founding partners moved his office from Texas to Chicago in January of 2000. This move allowed the company to have more resources in the Chicago office to line up equity investors.

The scope of the company had always been to invest in all types of Chicago real estate. This scope has not changed over time. The scale of the company had changed over time. In approximately the first two years of the company, Paris only did developments that required them to fix, fill and sell projects with a total redevelopment cost of about \$3-\$15 million. Beginning in 2000, the company started doing from the ground up development deals of about \$15-\$30 million or larger. The scale of the company changed because the firm had more experience with development projects and the firm had enough resources to put together projects of that size. By the summer of 2000, Paris had 25 assets in its portfolio. It had added 5 in 1997, 10 in 1998, eight assets in 1999, and two in the first six months of 2000.

Customer Focus

The partners made a decision in the beginning that the customers were the high net worth investors from Italy, and were focused on this because without equity, deals did not happen. Gaurdia's definition of the customer grew from the early 1990s when deals did not happen because there was no equity available. However, According to the VPD said the tenants were the customers because they paid the bills.

The partners had one refinement in customer focus since the company was founded. Starting in February 2000, the Euro was weakening in the currency exchange markets against the US dollar. Investors from Italy saw their investments de-valued in the currency markets, thereby making Italian equity expensive. This changed the customer focus at Paris; they were forced to place more emphasis on raising US equity see below. Unlike the Italian investors, US investors required that Paris co-invest with them on each deal. The co-investment requirement meant that the company had to invest its own money in deals it was doing with its equity partners.

Boyd's role was more important to the firm's business strategy than originally anticipated. Because of the currency markets, the focus for equity partners for the company changed from Italian investors to US-based high net worth individuals and pension funds. The operating strategy and the customer service strategy changed because Paris had to tailor its services to US-based customers. The partners chose Chicago as the scope of their business because of the desires of their customers: Chicago had a European flair.

Operating Strategy and Business Process Design

Except for the fact that the company had more internal resources as the company grew the operating strategy for the company had changed very little over time. There were two important pieces in the company's operating strategy. The partners would first source the equity for new deals. Each partner would concentrate on an area that they had the most experience in and would draw on resources within the organization as the need warranted

it. Once the company had an equity partner, the company turned to the operating strategy for each deal.

Paris had implemented a set of procedures that it followed when it put together deals. The first piece of this procedure was to put the asset under a letter of intent. Most of the time, this role was handled by Gaurdia. During the time that a deal was being put together, Gaurdia prepared an investment brief. This was a report that the company prepared which included a summary of the scope of the project, the financing details, and projected returns on the project. This brief was the basis for obtaining the equity and debt needed to bring the deals together and gave the company the ability to react quickly to new deals. If the company lined up the capital partners, Paris entered into a purchase and sale agreement. At this time, Gaurdia prepared an annual business plan, which served as a guide when repositioning assets.

The investment brief and the annual business plan were prepared for each deal since the company was founded. Paris also standardized a form called an Offering Memorandum, which was a Securities and Exchange Commission requirement that Paris prepared when soliciting equity investments from outside investors. There has been one change in how it develops these documents. A powerful incoming income-modeling tool was added when preparing the underwriting to gain a more accurate understanding of each asset.

The annual business plan was a document that Gaurdia developed that described how a particular project was to be handled during the time Paris owned the property. The VPD was responsible for any construction projects the properties required before marketing efforts were begun. He also was responsible for hiring a broker to lease the property and worked mostly on properties that needed redevelopment. When Paris closed on a deal that required building on vacant land, it hired a third-party developer to handle those duties. This was done to bring expertise to a deal that the firm felt it did not have.

Another important element of the operating strategy was the fact that the company outsourced the property management function to a local real estate developer who also

performed property management services for other companies. Gaurdia found that property management was not a core competence and believed it was unproductive, low-margin, busy work, although he acknowledged there was some loss of control. The property management firm was chosen because it established a level of trust when it had done joint ventures with Paris in the past. The manager had proven itself as a worthy joint venture partner; therefore, Paris trusted the company with the management of its assets. The VPD oversaw the relationship with the property manager.

An important part the VPD's relationship with the property manager was to keep an arms length distance with the tenants. However, in cases where a decision affected the financial performance of the property the VPD dealt directly with the tenants. This guaranteed that the equity partners received the highest level of service all decisions affecting the financial performance of the assets were made by Paris. The VPD also ensured that the property manager did a satisfactory job by routinely performing property inspections. However, no tenant satisfaction surveys were completed. Paris continually revisited its property management strategy and as of July of 2000 felt confident that outsourcing property management was the best arrangement.

Teams

Gaurdia decided how each deal was handled. Once a property was acquired, the EVP normally turned the deal over to the VPD and he took the responsibility of the process owner for that asset, meaning he was the person that oversaw all aspects of that project. Teams were formed early in the acquisition process around each deal with one person in the company leading the team and members comprised of various people outside of the organization. This allowed the company to draw on outside expertise. This included such roles as property management, engineering, legal and any other required roles.

Incentives

The company felt in order to attract and retain quality people employees needed to be compensated for results and excellent performance. The partners believed the success of the company was tied to the success of the employees. The key to the incentive system was making the employees accountable. As the company did well, employees were adequately compensated for their efforts and experienced nearly unlimited income earning potential. The company believed that the senior management team should receive a competitive base salary. In addition, 50 to 90 percent of their total compensation should come from incentives tied to the profitability of the company and the profitability of each project.

The company thought the salary for employees should be competitive with the market place and 30 to 50 percent of their total compensation came from incentives tied to the profitability of the company and the profitability of each project. Administrative employees got a base salary and a yearly bonus tied to the profitability of the company. If employees took ownership in the work they did, the incentive system allowed for an unlimited pay structure.

The Role of Information Technology

Another part of the company's operating strategy was the way in which Paris dealt with its information technology. All of the accounting, reporting, and other information technology functions for the company had been handled by the Dinovos staff in Texas since the company was founded in 1997. This outsourcing was done to ensure the company's flexibility. Outsourcing allowed the company to operate with a very small staff and move quickly to take care of responsibilities.

Due to the global nature of the business, email was considered an invaluable tool because it allowed instant communication with customers worldwide. Paris also used the information provided by the accounting office in Florida to provide information to investors. Instantaneous access to information allowed the firm to act quickly. Since the company used an outside source that specialized in providing information technology and

accounting functions, Paris could spend more time interfacing directly with equity investors thus providing a high degree of customer service.

Customer Service Delivery and Business Process Design

The partners jointly developed a customer service strategy based on the equity investor as the primary customer. An important element of the customer service strategy involved interacting personally with the equity investors on a regular basis. The partners regularly flew to Italy to meet personally with equity partners because they were very interested in the character of the developers. As the company did more business with US-based equity partners, the firm spent more time providing them with adequate documentation. These equity partners placed more emphasis on the deals than the personal relationships. This made the accounting and information technology part of the business increasingly important to the firm and allowed it to deliver its customer service strategy.

Another example of how Paris delivered its customer service strategy was the centralized reporting systems in the Texas office as well as a comprehensive website that kept investors up to date on their properties. Because the investors were thousands of miles away from the assets, Paris felt the need to keep them well informed. The firm's customer service strategy was articulated in its web site. The web site was in Italian and English and promoted such features as an Internet-based camera system, which allowed its foreign investors to watch project sites as they developed. Pictures were updated every two minutes. In July of 2000, the system was in beta testing and highlighted the company's commitment to customer satisfaction.

However, the customer service strategy for the firm has changed over time. As the company obtained more US clients, it began to consider the importance of developing new processes to provide a high degree of customer satisfaction to investors. To do this, the firm needed to consider the role of feedback, teams, information technology, and incentives. These helped determine potential changes in its customer service strategy.

Case Study #3³

Company Background

The Chops Group, later renamed Chops Investments (Chops), was founded by Victor Wayne and Bob Dodge in 1992 to take advantage of acquiring undervalued properties from the RTC and FDIC auctions. Although formed in 1992, the company consummated its first successful deal in June of 1993, at which time it purchased the Old Mill Business Center with the equity of a foreign investor. The company was founded on the notion of investing capital for high net worth individuals. The business strategy was to raise equity, buy, and hold assets for the long term in the \$1-\$5 million range. Between 1992 and 1995 it purchased four properties in the Chicago office market.

In August of 1995, the founding partners hired Mike Lake as a partner and managing director (MD) because the firm realized that its biggest challenges were how to grow effectively and, in order to do so, how to change the way it did business. Due to Lake's experience as an executive in the financial services industry, his job was to help the company reevaluate the firm's capital strategy and how it handled the operations side of the company: how to grow, add and formalize business processes, and raise institutional capital.

In 1995, the company made two other important additions to its staff. The firm hired an acquisitions director (AD) who later became a partner in the firm. He prepared all of the underwriting for potential acquisitions. This underwriting documentation also acted as a proposal to Chops' equity partners. The firm also hired a person who would later take on the critical role of director of information systems (DIS). The above actions laid the groundwork for a fundamental shift in Chops' business strategy.

Chops' Growth Strategy

³ The facts of the case and the parties involved have been changed to provide anonymity to the hosts. This case has been produced only for the use of this thesis.

By 1996, the partners had reassessed their business strategy and decided to abandon the buy-and-hold model for a model that focused on opportunistic investing. The company began selling assets as soon as the assets had been stabilized. Lake then began to look for an institutional source of equity so the firm could take advantage of the booming Chicago real estate market that offered very attractive returns. To make sure they could track those returns, the company also began investing in its organizational infrastructure and adding internal team members.

The company hired a principal in charge of the development and asset management functions. Additionally, it hired the controller for the company, who spent 35 percent of his time handling the cash flow requirements of Chops and 65 percent of his time managing the accounting activity for each individual deal. According to Lake, these additional staff members added credibility to the company's new business strategy.

In October of 1997, Chops reached an agreement with an equity partner, a Chicago-based real estate institutional advisor. A step that further advanced its new business model. This investor provided a pool of \$25 million in equity to fund acquisitions with an option to fund another \$25 million in equity. This exclusive Chicago area arrangement required a five percent co-investment from Chops on each transaction. The company was free, however, to seek investments outside the Chicago market. After the partnership was secured, the company's minimum land value deal increased to \$5-10 million and Chops experienced significant growth.

Prior to 1997, the company focused on capital raising, asset acquisitions, and asset management. They realized that the company's weakness centered around asset management and wanted to reallocate resources to this area. The partners viewed the acquisitions department as the strength of the company. To facilitate the internal changes that would be required, Chops hired a renowned strategic planning consultant. During an off-site retreat with the consultant, the partners identified a value chain that drove the investment strategy for the company determining that property management was not a

core competency for Chops. In addition, the profit margins in property management were limited, while internal transaction costs were high. Because markets were operating efficiently and the technologies to support the property management function were changing rapidly, the partners decided to outsource the activity to a high-quality service provider.

Once the decision to outsource was made, the partners focused on the manner in which they identified new opportunities. The firm's strategy was based on choosing geographic markets, buying targeted properties, managing properties to recover value, and selling properties to realize value. While the partners were enthusiastic about the prospect of entering new markets, the company needed to bolster its capacity to identify opportunities. To do this, they hired the former head of research from a national, full-service real estate company to develop a proprietary economic model that identified potential alternative markets for investment. This model became a fundamental part of their business strategy and significantly increased the prospects for growth during the next three-year time horizon.

To ensure the company could handle this rate of growth, the partners hired Silverado Consultants in 1997. The objective was to help Chops align corporate processes with long-term goals and assist the firm in becoming a process enterprise. Silverado recommended the following seven steps:

- 1) Create a vision of Chops in the future
- 2) Have a clear understanding of the value the company supports and promotes
- 3) Develop a clear strategy on how to accomplish Chop's vision
- 4) Establish agreed upon goals by which to measure Chops' progress
- 5) Set up business processes and an organizational structure to support steps one through four
- 6) Agree on an implementation process
- 7) Set up reinforcement mechanisms to ensure successful change

The consultants also suggested that customer service performance be the driver and measurement tool for Chops' goals, systems, and processes. With the help of Silverado, the staff determined that both its equity investors and the tenants in their properties were its customers. The company defined one-year and five-year goals and the corporate processes necessary to achieve those goals. Each goal was measurable, accountable to an individual or group, and given a timeframe to ensure achievement. A spreadsheet was developed as a tool to support implementation of the goals. Results were discussed and updated at weekly meetings. Everyone in the organization was included in the change management and his or her success would be measured accordingly.

Customer Focus

While most staff members acknowledged that the company had secondary customers such as community groups, real state brokers, debt holders and tenants, they viewed the equity partner as the primary customer. The assurance of a capital source significantly enhanced the company's ability to compete for investment opportunities in the market place further supporting the fact that the equity partner should be viewed as the primary customer.

As previously motioned the company name changed from The Chops Group to Chops Investments. This step demonstrated the company's commitment to the equity partnership and the new business model. The partners hired a branding consultant who recommended the name of the company be changed to better reflect this customer service orientation.

Consistent with the company's customer focus, it expanded its scope to include two new product types and development on vacant land. Chops changed its scope when it recognized that it had a competitive edge in developing two distinctly different property types: e-commerce warehouses and low income tax credit properties. The source of competitive advantage was the firm's ability to quickly identify emerging opportunities in its targeted marketplace. The warehouse opportunity was new to the industry, and

Chops was uniquely positioned to transfer its knowledge about information technologies to the needs of the end user. In addition, the firm began developing property on vacant land to meet the needs of its customers when it realized that redevelopment opportunities were becoming scarce. These new activities provided excellent opportunities to meet Chops' return requirements. This, in turn, allowed the firm to provide a high degree of continual customer satisfaction to its equity investor.

Operating Strategy and Business Process Design

After implementing the changes in Chops' operating model, the operating strategy for the company was designed to focus squarely on each deal. The deal making process began when one of the partners, a broker, or an employee located a deal that was worth exploring within markets that had been identified by the market consultant. The partners determined which deals were pursued. The company had always used an investment summary that provided details about a prospective deal to help raise the required capital. The investment summary provided a detailed analysis of the deal structure, including due diligence, physical improvements, proposed tenants, and financial requirements. As the company grew, the responsibility to prepare the investment summary shifted from one of the partners to a member of a team led by Dodge. Over time, the team standardized the investment summary in an effort to meet the expectations of Chops' equity partner, the partners, and the firm's new internal investment committee.

A critical success factor in Chops' operating strategy was the annual business plan. The company prepared these plans at the end of the approval process, when it signed agreements with the equity partner. The annual business plan expanded the investment summary. The plan included an operating plan for the duration of an asset and served as a guide for the project manager during the development process. In the fall of each year, the annual business plan was updated to reflect the current condition of the asset and provided guidance on the disposition of the asset. The investment summary and the annual business plan formed the principal business process related to the acquisition and

development of Chops' assets. The company then developed an asset management matrix as a tool for tracking the various aspects of each deal until the project was sold.

From 1997 until July of 1999, the company split the process of acquiring and redeveloping a project into two distinct parts. The first part was the acquisition phase, where someone within the acquisitions department, later renamed the transactions department, prepared the investment summary and brought the project under agreement. This was done with input from team members in the asset management department. A designated staff member in the asset management department then prepared the annual business plan and oversaw renovation and leasing prior to sale. The property management company worked closely with the asset management team throughout this period.

In July of 1999, the company changed its operating strategy and adopted a cradle-to-grave approach. One manager handled the whole process with support from a senior partner. The company changed this strategy because it was difficult to quickly update the asset management department on deals that were acquired. In addition, this change expedited the turn around and stabilization of assets.

Another important element of the operating strategy was the way the company handled the property management function. After the equity partnership was secured, the company engaged a local property manager in the Chicago area and a national property manager in locations outside Chicago. Property managers were selected based on the availability of resources to offer clients and reputations for excellent customer service. The managers also needed to have excellent financial reporting to meet the equity partner's heightened expectations for building management. Chops continued to oversee leasing which they determined as a key component to adding value to the property. The company monitored the property management performance through monthly reports but did not seek input from the property's end users. However, when Chops began investing in assets with longer hold periods, such as the residential low-income, tax credit

properties, the company then considered handling all of the property management function internally.

Teams

The role of teams played an important part in the operating strategy of the company. Teams had always been organized around the deals which was consistent with the partners' strategy to involve all of the internal team members and outside consultants early in the life of a project. The company selected a point person, called a project manager, who coordinated all of the aspects of the project to ensure that it was managed effectively. The senior partners selected the staff member in the organization with the expertise to handle the particular project requirements; partners also became directly involved in aspects of project management when their expertise fit well with the project's needs.

Meanwhile the property management service provider assigned third party managers in the earliest stages of the acquisitions process for assistance in performing the due diligence activities. Attorneys, surveyors, and engineers were also brought on board when a new project was launched.

By the beginning of 2000, three teams were established to manage the company's overall infrastructure and to concentrate on specific product types. One team, the operations and administrative team, managed the company's finance, technology and human resource requirements. A second team, the real estate investment team, managed the company's traditional investment projects as well as e-commerce warehouse projects. A third team, the low-income tax credit team, focused exclusively on the company's newest product type. Although many employees shared roles across team boundaries, the partners felt that dividing the company into three basic teams with specific competencies created the most value for the customer. To some of the staff, this structure represented the creation of separate activity areas within the company and a potentially distributed process.

Incentives

Another important part of the firm's operating strategy was the use of monetary and non-monetary incentives. Part of Chops' overall business strategy was that employees needed to be adequately compensated in order to retain the best people. Several components of the compensation package were in existence since the company was founded. The first component was a base salary determined by the market pay for a similar job. The second component was a special bonus, determined by the partners as appreciation for excellent performance. A spreadsheet was used to track the goals assigned to individual employees. This spreadsheet was used as a performance measurement tool. The third type of incentive was an annual bonus, which was based upon a percentage of an employee's base pay. This annual bonus was also decided by the partners at the end of the year by making an assessment of the person's overall contribution to the company's performance. The fourth type of incentive was the opportunity to become a partner. The role of the AD, who was hired as an employee and later became a partner because of his significant contributions was an example of this non-monetary incentive. In addition, the company also gave accolades to individual employees for a job well done.

Because the company had put itself on an aggressive growth path, in 1997, the partners implemented an additional incentive package called the phantom stock program. This program was based on a model that Lake had used at a previous firm. In the phantom stock program, employees would receive between a half percent to two percent of the company's growth in net worth for that year. The program was structured as a golden handcuff, in that the company paid the phantom stock bonus over a period of three years. The incentive system was consistent with the company's strategy to encourage employees to be enterprising people, while it also encouraged them to work toward a common goal.

Role of Information Technology

The role of information technology had always been an important part of Chops' business strategy. This was highlighted by the fact that the company's fifth employee was named the network administrator and later became the director of information systems (DIS). The information technology strategy was founded on the firm's principle of adding value to its customers by being more productive and competitive than its counterparts in the industry. This principle was achieved by integrating information technology (IT) into all aspects of the business. These areas included identification of new markets; analysis and management of acquisitions; and communication among equity partners and among staff.

The firm recognized that transactions occurred faster because of information technology. Aggressive steps had been taken to insure information technology could be used more efficiently to increase productivity. Productivity was important because the company's aggressive growth strategy required everyone to operate at full capacity. If an information technology tool allowed individuals to gain ten more minutes of working time every day, then it was deemed valuable. An example of the firm's willingness to use information technology to make employees more productive was that the company reimbursed each employee up to \$1,500 for home computers.

Productivity was also enhanced through use of Lotus Notes. The company utilized this software and an Access database to keep all employees up to date on various aspects of a project. The DIS ensured that everyone used information technology as a productivity tool. The link between staff activities, such as updating project data, and the incentive structure for the firm, reinforced this role of the DIS. Nevertheless, in a deal driven environment the time required to update the database remained challenging. In other examples, to increase productivity, the DIS implemented the extensive use of Palm Pilots, DSL for its Internet connection well before it was the norm, desktop publishing software to produce all of its brochures, email and document scanning.

Marketing was also a central focus of the information technology strategy. The company developed an extensive website that reinforced its competitive advantage in information

technology and in investment services to potential equity sources, existing equity partners, and end users of their products.

Finally, information technology was a tool for delivering customer service by providing up-to-date activity on all the equity partner's investments. This instantaneous feedback provided quality customer service. The importance of information technology as part of the business strategy was reinforced by the fact that a partner and the DIS met weekly to monitor its effectiveness in supporting corporate goals.

Customer Service Delivery and Business Process Design

The partner's role was to be available to the customer. In addition, six people at Chops talked to the equity partner each day. The equity partner was acutely aware of the daily performance of its assets and participated in developing methods of improving performance. The company accommodated the customer participation by having roundtable discussions on areas targeted for improvement. These comments were then incorporated into the day to day handling of the assets.

Key to the firm's growth strategy was the effective implementation of a quality customer service. The partners realized the end user might become a primary customer as the firm grew in size and held assets longer. This would cause the partners to rethink the manner in which Chops delivered customer service in both the property management and the asset management areas.

Chapter IV

Analysis

This research was completed to analyze the companies' actions in relation to the elements of the two frameworks applied, not evaluating the effectiveness. This chapter will analyze the three cases in relation to the key growth and process enterprise theories explored as part of the research. The analysis will be broken down into three areas: a review of the cases; a comparison of the cases; and a summary of the analysis.

Case #1

As defined by Churchill and Lewis (1983), the success-growth stage of small company growth is made up of such key issues as the owner's ability to delegate, the level of strategic planning, and the degree to which systems and controls have been put in place to effectively manage growth. Benchmark appears to be at the success-growth stage of small company growth for the following reasons:

- 1) The firm and the owner are not synonymous with one another.
- 2) The CEO is removed from important aspects of the firm such as acquisitions.
- 3) He goes to considerable lengths to consolidate and marshal the resources of the firm for future growth.
- 4) He has also taken extensive measures to ensure that they put in place business processes that meet the future needs of the company. For example, he hired a director of market planning as the fourth employee. At the time, the company did not need this role to be filled; Grape hired this person with an eye toward the future growth of the company. Another example of this is his hiring of the vice president of development, because of the desire to plan strategically for the company's future not because of the current need to have someone complete the work.
- 5) Although he is involved in many aspects of the firm, the CEO spends a considerable amount of his time on strategic planning.

6) He has implemented two processes that are embedded in the BQS business strategy.

Benchmark has systematically implemented business processes in two areas. It has implemented processes around project development. The proposed development report and the monthly project summary give the company specific processes to follow throughout the development of a project. In addition, Benchmark has developed a set of standards that allow it to have processes in place that achieve customer service satisfaction.

The company adds value to its equity partner by bundling a set of activities, such as acquiring, permitting, developing, and managing that result in a real estate asset of increased value. These activities to enhance asset value encompass the entire value chain. Moreover, Benchmark seeks to continually improve its service delivery by taking into account feedback from customers and staff. As the company has developed a series of business processes in these two areas, it has cultivated a business process enterprise.

Benchmark is striving to manage growth by hiring people before they are needed. An example of this is that in August of 2000, the company will be hiring a chief operations officer (COO). Among other responsibilities, the COO will ensure that the BQS standards are followed. This will be done on an ongoing basis in order to deliver enhanced feedback within the company and from its customers. Benchmark is also interested in enhancing the development function that it brought in-house in an effort to continually improve the value-added for its customers. Because it must leverage both its financial and human resources for future growth, it has realized the importance of a process enterprise.

Case Study #2

Paris Chicago Investments closely resembles Churchill and Lewis' survival stage of growth because the business has demonstrated that it is a workable business entity, has a growing number of customers, and satisfies them to maintain a profitable enterprise.

Another key reason that Paris appears to be in the survival stage of growth is that the organization is a simple structure with everyone reporting directly to Gaurdia. Employees do not make major decisions but instead carry out well-defined instructions from the owner. An example of this is Gaurdia's hiring Boyd as a functional manager to raise equity in the capital markets. This action resembles Churchill and Lewis' concept of hiring a staff member to carry out well-defined tasks. The survival stage of growth is also suggested by the fact the company does not hire employees and managers with an eye toward future growth but bases hiring on the needs of the company as they arise.

Outside of the investment brief and the annual business plan, the company has few formal processes in place. Paris has implemented business processes because its equity investors require detailed project planning in order for the company to receive equity commitments. The two processes that the company uses are the investment brief, which outlines the basic structure of each deal that they are about to acquire, and the annual business plan, which is the blueprint that is followed once the company has acquired an asset. Paris creates value by tying these services together to achieve the highest level of return on investment for the equity investor. This is consistent with the survival stage of growth when companies are focused on the ability to raise capital to meet their goals.

To consider the effects of process enterprise on the organization, a company must think in terms of how the processes that the company uses can lead to best practices for providing the customer with a high degree of satisfaction. For example, as Paris begins to think about the role of the end users, a process enterprise orientation designed to serve them may take on greater importance. This is because a process enterprise approach assists companies experiencing rapid growth by making the links in the service profit chain more obvious.

Case Study #3

As defined by Churchill and Lewis, Chops aligns most closely with the survival stage of small company growth although the firm has made significant efforts to move toward the

success stage. The company has established that it is a profitable business. Although there are five partners in the firm, all five are deeply involved in many of the day-to-day operations. Functional managers have been hired to oversee certain areas, such as accounting and information technology. These roles were created to meet the needs of the equity partners. However, key decisions in the firm appear to be made by one of the five principals and carried out by people reporting directly to them. The partners are synonymous with the business and are focused on doing deals. Although there have been attempts to formalize Chops' strategic plan, some partners maintain that in the fast paced deal making environment the efforts to follow through have been relatively narrow.

Chops uses a detailed investment summary and business plan to outline each deal that they do with its equity partners. The accounting and IT functions have been put in place mainly to satisfy the need for a sophisticated analysis on the part of the equity partners. As with Paris, this focus on the expectations of equity partners is consistent with raising enough capital to meet its goals.

However, the economic modeling, technology, and accounting infrastructure could be considered a step toward a process enterprise approach. Email is used to increase the efficiency of the firm and the company is expanding the use of project communication software to facilitate better communication and feedback. IT has also transferred its knowledge in developing new product types. The accounting and IT functions exist mainly to satisfy the need for sophisticated analysis on the part of the equity partners. This approach is a systematic move toward a process enterprise.

Chops creates value by acquiring assets, fixing, and filling them. The firm also creates value by finding ways in which the equity partner's capital can be invested in unique marketplaces, such as the development of e-commerce warehouses or low income tax credit residential projects. For the company to evolve to Churchill and Lewis' success-growth stage, the partners would need to ensure that they are delegating the responsibilities of completing deals and focusing on the strategic planning and infrastructure of the company.

Although Chops is very interested in a process enterprise in its business, in its orientation to its business, as demonstrated by the engagement of a strategic planner and of Silverado consultants, it appears that the company has concentrated resources more on the deal making process than on the implementation of its strategic plans.

Case Comparison

The next area of the analysis will compare and contrast each of the three cases in relation to Heskett's work as a framework for service companies. This will be presented in two broad areas: customer focus and satisfaction and organizational strategies.

Customer Focus and Satisfaction

Case #1

Heskett defines target markets as segments of an end-user population that make service development possible. Benchmark has clearly defined the end users and their family members as its primary target market. The company has developed a clearly defined service vision. Customer focus and customer satisfaction are achieved by the use of the BQS standards that lead to profitability. An example of how the mission of the company relates to the service vision would be that the company wants to be the highest quality provider of assisted living facilities in New England. This standard provides an example of how Heskett's service profit chain is relevant to a small real estate firm.

The CEO and his partners are able to achieve profitability by being focused on a market and using feedback techniques learned at ADS Senior Housing. An example of the target market for end users would be elderly people who need assisted living facilities.

Through the efforts of the BQS team and the front line staff, the strategic service vision is implemented into the BQS standards.

Benchmark has developed a set of internal staff relationships that allow for instantaneous feedback and performance assessment. Heskett would suggest that internal and external communication and feedback supports a process enterprise because it allows the employees in the organization to know the needs of the customers, achieves a high degree of customer satisfaction, and subsequently gives employees a high degree of job satisfaction. Benchmark is able to achieve a market (assisted living) focus and customer service satisfaction because it is able to tie its service delivery system, its operating strategy, and service concept together with its target market segment through its strategic service vision. This is done by customer focus, internal quality of work life, and continual feedback as an integrated part of its customer focus and customer service strategy.

Case #2

Paris' customer service strategy is very different from the strategy implemented by Benchmark. This customer focus and service strategy revolves around the needs of the equity partner. The company does not have formal procedures in place for dealing with end-user feedback or the improvement of service profit chain performance. Heskett's work suggests a "balanced scorecard" can be used to assess human resources' effectiveness, innovation, and customer loyalty, as well as financial performance.

Meanwhile, the company links customer satisfaction and profitability to employee satisfaction and internal quality of work life. According to Gaurdia, this is done by ensuring that the company does good and interesting business with good and interesting people. In order for Paris to gauge the performance of its company in relation to end users, it would need to develop a set of procedures that would allow it to receive continual feedback from staff and customers and, in turn, share insights about performance throughout the company.

Case #3

Chops' customer service strategy is similar to that of Paris', in that the primary customer is the equity partner. However, Chops is in the process of developing low-income tax credit projects, and the partners feel that this may push the company toward more of an end user focus.

If the company deals directly with the end user, it may see the importance of a target market focus on end users in the company's strategic service vision. This, in turn, would suggest working toward the development of an explicit link in the service profit chain to meet the needs of the end user. Chops has expressed an interest once again in managing those assets because it can create value by linking quality customer service to profitability. The company reacts quickly when equity investors call for information, but the company has informal procedures in place to communicate to employees the level of service that the company is providing its equity partner.

According to Heskett, a company achieves profitability and customer service satisfaction through employee job satisfaction. This link is demonstrated at Chops through the extensive use of incentive packages and other internal quality-of-life issues, such as the chance to be partner and the firm's willingness to ensure that employees have all the latest technological tools for their use at home.

Heskett has found that in order for a company to implement a process enterprise and fully utilize the service profit chain, it must encourage the use of internal best practice exchanges. Chops has developed a set of best practices standards for its equity partners but not the end user customers.

A great deal of information is focused outward toward the equity partner and developing information systems that will support more systematic sharing of information about the IRR performance of the project. Meanwhile, Chops has organized different teams for the e-commerce warehouses and low-income tax credit projects. According to some staff, the company does share information on the IRR results of each project, but may not share information on their best practices.

Organizational Strategies

The cases also suggest some important insights on organizational strategies, which can be analyzed in three broad areas: 1) the role of teams; 2) the importance of incentives; and 3) the role of information technology. These will be analyzed using Heskett's framework.

Case #1

Teams

Heskett states that formation of teams is an attempt to pair people together to best serve the customer. This is precisely how Benchmark uses teams within the organization. As the firm has grown from the existence and survival stages to the success-growth stage of small growth, the company has relied more on the use of internal teams within the organization. Benchmark seeks to give customers a greater level of satisfaction and a higher degree of quality through its teamwork strategy with teams. As Heskett suggests, teams give a firm the flexibility to quickly meet customer needs and improve customer relations. A Benchmark team knows it is doing well through the internal and external feedback the company gives teams from information gathered by the BQS team. This information gathered from both residents and their adult children by the front-line employees also allows the firm to gauge the performance of the strategic service vision. Teamwork within the organization is reinforced by incentives.

Incentives

The second area of Benchmark's operational strategy to analyze is the role of incentives within the organization. The CEO found that a successful company begins with its ability to attract the best people in the industry. This is accomplished by paying employees well and being known to have the best employees in the industry. This is very

consistent with Heskett's belief that customer loyalty, and thereby customer satisfaction, are linked to the internal quality of work life of the firm. BQS ensures a high quality of work life by ensuring that employees have all necessary tools to satisfy the customer. An important incentive is professional growth; the company can offer substantial professional growth because the size of the company is expanding very rapidly.

Another expression of internal quality of work life is the feelings that people have toward their jobs, colleagues, and companies. This is promoted by giving personal accolades or small gifts of appreciation to employees. Benchmark views the role of incentives as a tool whereby the company can keep the highest quality employees to provide the greatest level of customer satisfaction. The quality of the company's service and customer satisfaction is measured by feedback through the BQS standards. This gives employees the ability to provide the customers with the highest degree of customer satisfaction. These are important parts of the strategic service profit chain.

Role of Information Technology

The third broad area of the organizational strategy to look at is the use of information technology in the firm. Information technology allows Benchmark to give its equity partner up-to-date, real time information and a high degree of satisfaction. It also allows the company to share best practices across the organization in order to service its residents and their adult children effectively and efficiently. Although Benchmark does use information technology to get work done more efficiently, it is primarily a tool to better serve the customer. Heskett suggests that information technology is a tool that empowers the employees of an organization to effectively serve the customer. This is very similar to the view that Benchmark uses to best serve its customers, implement BQS, and market its services on the Internet.

Case #2

Teams

According to Gaurdia, the role of teams at Paris has little importance to the organization. Upon closer review of the company's operating strategy, the role of teams appears to be an important aspect in developing projects and satisfying the equity partner. Paris organizes its teams around the individual deals; each deal is handled by a leader with internal and external team members called upon as needed. The company tries to be as nimble as possible and only hires employees when it no longer makes sense to use external team members. The company hires internal team members based on current, not future, need. This is a characteristic of companies in the survival stage of growth, as is the fact that teams do not review feedback performance from the end users.

Incentives

The role of incentives at Paris is an important part in its operating strategy. The firm considers the monetary portion of the incentive package very important. In addition to the monetary incentive systems, Gaurdia has found that doing good and interesting business with good and interesting people is an incentive for the employees of the firm. This suggests that not only is monetary compensation important to the firm, but there are also non-monetary rewards for employees.

Incentives can directly relate to the level of customer satisfaction. However, Heskett's work suggests that in order to implement a process enterprise, a company needs to implement direct links between customer service satisfaction, customer loyalty and the profitability of the firm. This involves the development of a system for feedback on the firm's performance from the end users. As Paris evolves to the success-growth stage, incentives are more likely to be tied to the end user's customer satisfaction levels and be based on such areas as quality and productivity.

Role of Information Technology

Paris' information technology infrastructure is very limited; the company outsources much of its administrative aspects and reporting to an affiliated company. Heskett's work makes the point that outsourcing can allow the company to allocate more internal company resources toward the enhancement of customer loyalty and, thereby, satisfaction. This is consistent with Paris' rationale for outsourcing this portion of the work. Churchill and Lewis' work suggests that the development of an organizational infrastructure, IT as well as other resources of the firm, takes on a greater importance as a firm moves through the success-growth stage.

Case #3

Teams

Chops' use of teams is organized around the deal. The size of the organization allows the firm to draw team members from its staff. Team members are recruited on the basis of their area of expertise. Heskett's work suggests that teams should be used to better serve the end user. Chops uses teams when developing a project and servicing the needs of the equity investor customer. Teams benefit the equity partner in the form of a higher rate of return generating timely information that reduces project risk. However, due to the fact the company does not identify the end user as a customer, the firm has not embedded the concept of a strategic service vision into its work.

The team leader handles the transition to the broker and property manager. Many times the property is sold before it is fully leased, thereby eliminating any feedback from the end user. When the asset is kept, the firm has not attempted to receive feedback from its end users on the quality of customer service. Since the company will be developing low-income tax credit properties, the partners believe that they may begin to manage these properties themselves and subsequently will employ a greater use of front line service teams. The company will need continuous feedback throughout the organization in order to provide quality customer service.

Incentives

Chops has in place an incentive structure that is tied to the financial performance of the company. The incentives are directly linked to the satisfaction of the equity partner in that the higher the IRR for the equity partner, the greater the profitability of the firm and the larger the incentive. Heskett's work suggests that firms must reward their employees for quality customer service with a system that allows for continual customer feedback. The company does elicit informal feedback from its equity partners, but does not receive input from its end users.

Role of Information Technology

This firm uses information technology extensively in its operational strategy. Heskett's work suggests that information technology allows a firm to utilize all of the links in the service profit chain. These linkages give employees the ability to provide a high degree of customer satisfaction to the end user which are a tool that allows front-line employees to better service customers. Chops uses Lotus Notes, a powerful accounting software package, project performance software, and email to provide a high degree of customer service to its equity partner. Although the company receives no feedback from end users on customer service performance, it does receive detailed accounting information from the property managers and extensive feedback from its identified customer, the equity investor.

Summary of Analysis

Four elements of business process enterprise are most obvious in the case research. These include customer focus and service, continual feedback, the use of teams, and incentives. These four areas were chosen because when a company is implementing them, they are exhibiting traits of a process enterprise and a strategic service vision.

The first element of a process enterprise is customer service and focus. For example, Benchmark's service vision is integrated within the firm's use of BQS. Although the other two firms identified the equity investor as a customer, they did not recognize the end user as part of a service strategy or the user of their products and services as a customer. This customer focus allows for quality customer service via the links in the service profit chain. Benchmark is able to achieve a high degree of customer service and profitability because it has defined target markets for its company and its operational strategy. This is accomplished through the use of quality customer service and the firm's strategic service vision.

The second broad element discovered in all three cases is the importance of feedback throughout the entire organization. Important elements of the service profit chain are self-appraisal and a balanced scorecard. Heskett suggests that without having feedback mechanisms in place, a company is not able to implement a strategic service vision. With BQS, Benchmark has developed an infrastructure that allows for the communication of self-appraisal, assessment of best practices, and a balanced score card approach that delivers a high degree of value to the end user. The company then uses this feedback to give front-line employees the tools to provide the highest level of customer satisfaction. Feedback is a critical part of the firm's service profit chain, because it allows the company to create a strategic service vision. Companies such as Benchmark that utilize high-quality feedback have made strides to create a process enterprise.

The third element that is most obvious in a business process enterprise is the use of teams. Teams play an important role in the service delivery system, the operating strategy, and the service concept in real estate development firms. They allow the entire service profit chain to be linked to provide the highest degree of customer service. Churchill and Lewis also believe that teams are an effective way for an owner to delegate key roles and decisions to move toward the success-growth stage of small company growth. The case studies support this.

The fourth element confirmed in the cases is the importance of incentives in a business process enterprise. All three firms place a high degree of importance on the use of incentives to provide employees with high-quality internal work life. Only Benchmark and Chops use systematic feedback to determine the level of financial and non-financial incentives to offer. Heskett's work suggests companies must link their incentives to the customer satisfaction of the end user. With the use of BQS, Benchmark makes this link. This is consistent with the hypothesis of this research.

Both the theories and the case studies suggest that a strong relationship exists between stage of growth and the key elements of a process enterprise. The ability for a company to progress to the next stage of growth, according to Churchill and Lewis, is consistent with Heskett's model. This suggests a link between the two theories. This is largely because many of the broader elements in Churchill and Lewis' work are important characteristics in a business process enterprise. These elements ensure that a company can achieve a strategic service vision. This relationship supports the hypothesis of this research.

As suggested in the first chapter, small real estate companies have a difficult time moving from the survival stage of growth because of obstacles such as complexity of work, risks involved in specific deals, and reluctance of owners to delegate. Case study data suggests that a process enterprise approach can assist companies in this evolution from the survival to the success stage of growth. Heskett's work on a company's service vision provides useful guidance for surmounting these obstacles.

Heskett and the case study data confirm that in order for a firm to move toward a business process enterprise, they must exhibit key traits. By implementing the key elements of the service profit chain, the company is in the process of developing a strategic service vision and a business process enterprise.

Chapter V

Conclusions

A business process orientation is very important in a company that is striving to move from the survival stage of growth to the success-growth stage. Companies in the success-growth stage have traits that include extensive strategic planning, ability of the owner to delegate key decisions, and efforts to develop extensive systems and controls. Heskett's work suggests that these traits are also important elements of a process enterprise. The case data also demonstrates that a business process enterprise approach can be applicable to small companies. For example, Benchmark, with 600 employees, would be considered a small company by most definitions. Moreover, a firm that exhibits important traits of a process enterprise as defined by Churchill and Lewis appears to be in the success stage of growth.

There is an important distinction between a business process and a business process enterprise. A business process is the way in which a company performs a particular task such as developing a project or doing a deal. Many firms at the survival stage of growth believe incorrectly that this is the same as a business process enterprise. As discussed in the first chapter, many small real estate companies often put in place a business process related to deal-making, but that is very different from designing a process enterprise.

A business process enterprise is an orientation in which a set of well functioning processes can be linked together to create a strategic service vision. In order for a small real estate company to develop a strategic service vision, it must define target markets in order to deliver high quality customer service and become profitable. This implies that the equity partner is one of several customers. More importantly, the company must define the end user as a customer, as seen in the case of Benchmark, to put in place a business process enterprise.

If a firm does not cultivate the traits that Churchill and Lewis use to describe a company at the success-growth stage of small company growth, the company will not be able to implement a process enterprise. This suggests that Churchill and Lewis' work on small company growth can be viewed as a baseline for business process enterprise orientation.

One of the key factors limiting the evolution of small real estate development companies to the success stage of growth is that they do not define the end user/tenant as a centrally important customer. Without this definition, the firm cannot create a comprehensive strategic service vision. This is largely because the firm has lost sight of an important part of its target market which may be a product-focused or operationally focused strategy when providing value to the customer.

Instead, many small real estate companies operate on the premise that the deal is the most important element of the business. Churchill and Lewis' work suggests that small companies are prohibiting themselves from the success stage when they are unwilling to delegate the responsibility of managing business (deals) and other key roles to functional managers. Subsequently, owners are not able to concentrate on developing strategic plans and implementing systems and controls to ensure the company will move toward a success-growth stage.

Therefore, positioning a real estate company, with its service orientation, to move from the survival stage to the success-growth stage will be easier when the company designs itself as a process enterprise as defined by Heskett. This is illustrated by the way in which Benchmark handles its service orientation with BQS standards. Benchmark's service orientation is an example of how the company must align its service concepts with the operations of the company. It is important to recognize that different product types require different strategies. However, in both cases, the end users' satisfaction is at the heart of the success of the project.

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