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**TAKE MY  
DESK—PLEASE**  
ALTERNATIVE  
WORKPLACES SLASH  
REAL ESTATE COSTS

**PAY DIRT**  
COMPENSATION  
MEETS REGULATION

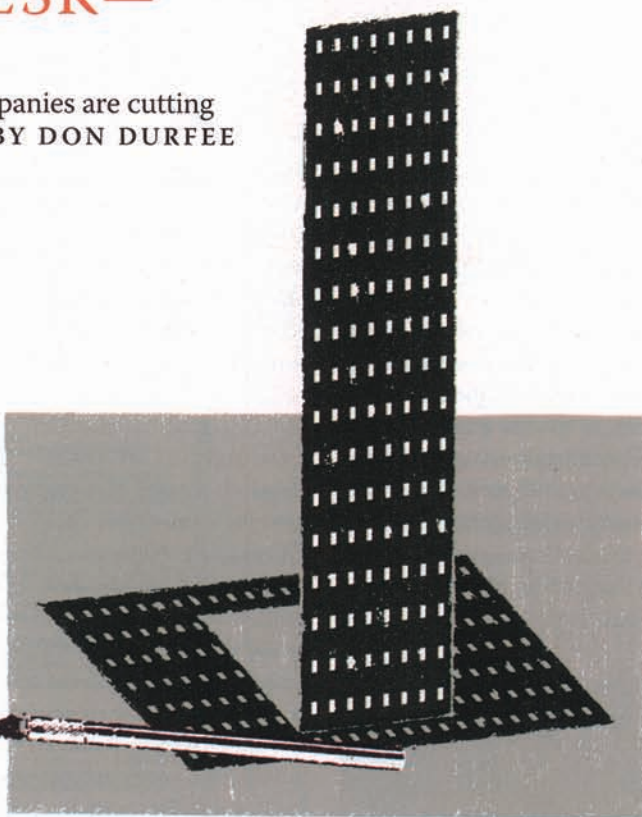
## TAKE MY DESK— PLEASE

By rethinking office design, companies are cutting real-estate costs by nearly half. BY DON DURFEE

**R**EMBER 1999, when big companies rushed to imitate the dot-coms by crafting hip workplaces? Suddenly, relaxed dress codes, refrigerators full of Diet Coke and Snickers bars, and dogs in the halls made the corporate life seem a little less corporate.

Most of that funky aesthetic disappeared faster than you can say “New Economy,” but one facet is making a quiet comeback: the open office arrangement. Motivated more by a desire to save money on real estate than to please finicky employees, companies including Motorola, Ernst & Young, and Cisco Systems report that they have cut real estate costs significantly by adopting “alternative workplace” designs. Cisco, for example, has seen 37 to 40 percent savings from its new approach.

Capital One Financial Services Corp. has made the concept a key part of its “Future of Work” initiative by swapping traditional offices and cubicles for a mixture of unassigned desks, sofas, and conference spaces. The company’s cafeteria is designed to accommodate informal meetings, and there are scattered café areas that look remarkably like the local Starbucks. Employees, equipped with wireless laptops, Blackberries, and cell phones, are free to work



wherever they wish. Some companies are taking the idea further, combining new thinking on office space with an endorsement of telecommuting or the establishment of smaller, more-modest regional offices that employees can drop in to as needed.

### EMPTY DESKS

The concept is not new; as Sandy Apgar, a partner with The Boston Consulting Group’s (BCG) real estate practice, says, “Over the years, many companies have touched on this topic but not gone much further. They run into significant resistance, especially from midlevel managers, and interest wanes.”

But there are reasons to believe that this time things may play out differently. A recent Gallup poll commissioned by CoreNet Global, a corporate real estate association, found that 20 percent of large companies expect to have between 25 and 50 percent

of their employees working in unassigned spaces by 2010, and by 2020 the majority of large companies are expected to have adopted the practice to some extent.

The primary driver is economy: as managers work their way down the list of cost-cutting opportunities, real estate emerges as an attractive target. At most companies, property-related costs are second only to salaries and benefits. Some companies have already pared such expenses, typically by consolidating partly vacant buildings and either selling or subletting what's left. Indeed, the average number of square feet per employee has been trending down for some time (see chart, this page).

Alternative workplaces offer an opportunity for deeper cuts because they represent a shift from thinking about occupancy (how many people a building can accommodate if each worker is assigned a specific seat) to utilization (how many people actually use a building or office at any given time). "Companies are starting to realize that instead of being satisfied that their building is 95 percent occupied



**CAPITAL ONE'S "FUTURE OF WORK" EFFORT ENTAILS A SHIFT TOWARD A RANGE OF COLLABORATIVE AND SHARED WORKSPACES.**

they should instead be worried that it's only 40 percent utilized, because people are often out of the office," says Prentice Knight, CEO of CoreNet Global.

Matt Schuyler, Capital One's executive vice president of human resources (he also oversees real estate), says he was "startled" by just how true that was after his team and the company's finance department surveyed how office space was being used and calculated how much could be saved by reorganizing.

#### DOUBLE OCCUPANCY

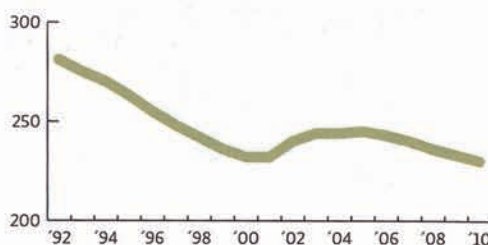
Research showed that employees were working somewhere other than their offices and cubicles more than half the time. "Some people were using their offices only 5 percent of the time," Schuyler says. By eliminating most dedicated workspaces (administrative assistants got to keep their own desks), the company has sharply reduced its needs. A building that once accommodated 650 employees, for example, now serves 1,200. Schuyler declines to say how much the company has saved, but real estate professionals say that such actions can produce savings of up to 40 percent.

Another factor pushing companies to reconsider office space is the widening gap between what workers need and what workplaces provide. At one time, office employees labored primarily in solitude; today, they spend two-thirds of their time collaborating, according to Gartner. But offices are still set up for the old style of work. "In most companies, you find that conference rooms are overbooked while offices and cubicles are empty," says Mark Golan, Cisco's vice president of worldwide real estate and the chairman of CoreNet. "It's insane. Not only is it wasteful, it doesn't suit the needs of your workforce."

Like Capital One, Cisco's response has been to turn the old design on its head by making the office a home away from

## THE INCREDIBLE SHRINKING CUBICLE

In the service sector, fewer square feet per worker is the rule.



Source: Torto Wheaton Research

home. "You don't go home to a cubicle," Golan says; "you move around the house depending on what you're doing." When Cisco's employees aren't on the road (they're on the road about 20 percent of the time), they usually work together, so the space was reconfigured to provide open areas where employees can have quick, informal meetings, while work teams can gather in a range of small and large conference rooms outfitted with video-conferencing equipment and digital whiteboards. When employees need what Capital One refers to as "heads-down quiet space" they can move to a library, where conversation is minimal and cell phones must stay on vibrate mode.

The goal is to augment the savings on real estate with enhanced productivity. Measuring productivity is never easy; as Cisco's Golan notes, "It's hard to isolate the effect that any one variable has on worker output." But he says that a pilot project in the company's call centers resulted in "very significant" improvements. Capital One attempts to crack the productivity code through worker surveys, and says that three-quarters of

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employees surveyed say they are now working as productively as possible, while just over half say that group productivity is up. The company also found a 24 to 31 percent reduction in the time needed to get input from managers and peers, which it says leads to faster decisions.

### MAKING IT WORK

The good news is that alternative workplaces are much easier to set up than in years past. For many knowledge workers, work is almost synonymous with Internet access, and with laptop computers now powerful and inexpensive, wireless networks proliferating, and various conferencing technologies maturing, "office space" can be created virtually by using the tools that workers would be supplied with anyway.

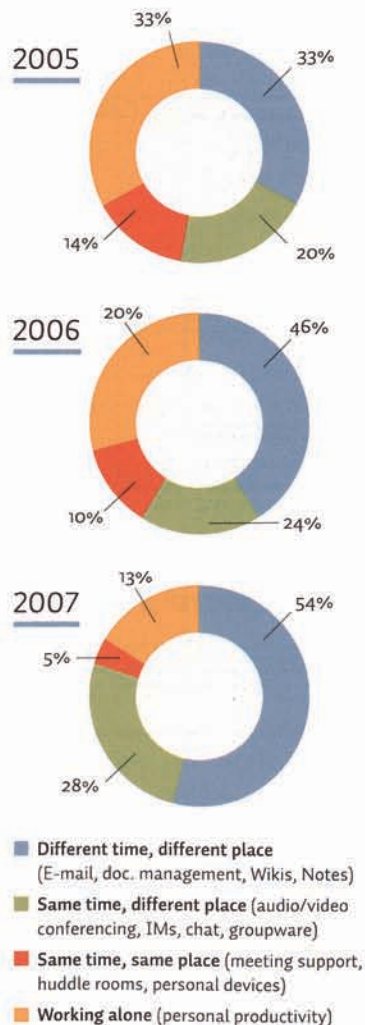
Full-service real estate providers have geared up to help companies make the transition. Such firms as Jones Lang LaSalle and Trammell Crow Co. now guide companies through the process, from space planning to implementation. Even furniture makers have gotten into the act. "A decade ago, if you wanted a mobile furniture system, you had to have it custom-built," says Knight. Now, most components are available out of the box.

Building the new space is only half the effort, though—companies also need to persuade employees to embrace it. An office still conveys status for many, and some managers are uncomfortable with direct reports working at home or in ever-changing corners of the office. Employees may simply wonder where they are supposed to stash all their stuff.

Capital One addresses those and similar issues by launching a needs assessment that examines how work gets done in each unit. (To date, eight units of the company totaling about 2,000 employees have moved to the new system, with some of the biggest groups slated to make the move next year.) The design of each space

### ALL TOGETHER SOON

The increasingly team-based nature of work is driving a move toward new office-space designs.



Source: Gartner

varies depending on the needs of the people who use it. For example, in IT much of the work is done on a project basis, with teams forming and then disbanding once projects are completed. So the company created "agile project rooms," with movable walls, electronic whiteboards, and even careful control over the thermo-

stat, because with all that gear and people in one place, the temperature can climb to uncomfortable levels.

Employees are given the option of "going mobile," and about 80 percent choose to do so. They receive six to eight weeks of training on everything from how to be productive while working in virtual teams to how to use new equipment to how to manage their own piles of paperwork when they no longer have dedicated desks. (Hint: forget hard copies and instead embrace the "paperless office.")

Flexibility is essential. There are big differences between what suits the sales staff, who travel a lot, and the engineers, who are more office-bound and have more gear. Companies may also discover that some seemingly good ideas don't work. Hewlett-Packard, for example, which is in the midst of a four-year overhaul of its hundreds of buildings worldwide, found that newly created small project rooms, enclosed by low partitions, were too noisy. It has since added glass walls that extend to the ceiling.

Executives at companies that have made the move to alternative workplaces agree that the change-management issues require a lot of attention. One financial services firm in New York jump-started its process by giving managers a reduced amount of office space and leaving it to them to decide whether to stick with the traditional office layout, which would result in a cramped cubicle hell, or adopt a more inviting, open plan that allowed for some growth possibilities—assuming employees shared the space. As Chris Howe of BCG notes, "It doesn't force anyone to do things a certain way, but it does make the trade-offs very clear." CFO

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