

Management of non-core assets: Potential divesture or reallocation of property assets of non-real estate GLCs –Objectives and rationale

ENHANCE OPERATIONAL IMPROVEMENTS

Managing non-core Assets – “YELLOW BOOK”	Number III.10.1.1
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Objectives

- The main goal of this initiative is to enhance value creation of GLCs through more efficient capital usage by freeing up cash from non-core assets and increasing focus on core businesses.
 - Focus on potential divesture or re-allocation of property assets of a non-real estate GLC
 - Complement with other initiatives that focus the company on value creation, e.g., the adoption of EVA/VBM metrics to measure corporate performance has important implications on the attractiveness of real estate, both as an asset class and as business entity

Rationale

- In today’s business environment many non-real estate GLCs have invested significantly in properties that are used for operational and investment purposes – known as Corporate Real Estate (CRE)
 - In many cases CRE appears to destroy shareholder value due to neglect of properties and deteriorating market conditions
 - Lack of monitoring and financial discipline means many companies are unaware of this situation within their business portfolio
- There is potential for extracting more value if a cohesive CRE strategy is developed, e.g.:
 - Divestment of non-core properties where CRE is destroying value. Alternatively, a cross GLC property holding/development company concept could be developed
 - Standard classification of operational and non-operational properties will help to optimize the balance sheet of each company – minimizing arbitrary decisions with respect to property holdings
 - In specific situations GLCs might combine core (non-property) businesses with property businesses in order to diversify risk; or in support of a specific long-term strategy (e.g. conglomerates might consider not divesting but consolidating instead)
- At a minimum, being aware of the effect of real estate in the value of the GLC should serve as a warning that the overall CRE holding strategy and business of the company may need to be reviewed.

Potential divesture or reallocation of property assets of non-real estate GLCs – Expected outputs, pre-conditions for success and potential risks	ENHANCE OPERATIONAL IMPROVEMENTS	
	Managing non-core Assets – “YELLOW BOOK”	Number III.10.1.2

Expected outputs from this initiative

- A pilot to analyse the different options within a GLC to optimise its current real estate portfolio:
 - The main learning from this pilot, both in terms of outcomes as well as methodology for analysis and evaluation will be codified and thereafter it can be transferred to other GLCs
 - Proposed options on how to deal with non-core assets/investments will be presented to adjust the particular needs of the GLCs
- Guidelines (“Yellow Book”) to assist GLCs in optimising their current CRE portfolio and to incorporate it in their strategic and budgeting planning cycle

Prerequisites for success

- Access to current GLC’s property portfolio
- Ability to identify, evaluate, and classify the different property assets (operational and non-operational)
- Large involvement of several units at each GLC (Finance, Treasury, Ops, specific front-line units, etc). Cross-unit initiative needing a strong leader to carry it through at each specific GLC

Potential risks

- Inadequate evaluation and valuation of assets could lead to sub-optimal recommendation (in terms of holding, divesting, reallocating the specific asset, etc)
- Market not sophisticated enough to understand implications of CRE portfolio optimization
- Market not ready to absorb drastic changes in the real estate business

Potential divestiture or reallocation of property assets of non-real estate GLCs – Next steps

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Next steps

- Upon the completion and release of this Transformation Manual it is recommended that non-real estate GLCs undertake an analysis of their current CRE portfolio and the implications on the value of the company in several dimensions (such as strategic value, financial value, operational value, etc.)
- A more specific effort involving one GLC as pilot of the initiative should be launched, ideally in Q4 2005. Main activities to be undertaken include:
 - Identification and classification of real estate assets at the GLC
 - Update market value of assets
 - Determine current usage of each CRE asset and implications for the business
 - Explore alternative usage of asset and or substitution of the asset
 - Link CRE portfolio with overall strategy of the GLC to understand long-term implications
 - Based on examples of best practices, identify options to manage all property-related non-core-assets (e.g., moving all the properties to existing property-focus GLCs, setting up another GLC to manage those properties)
 - Quantify value creation potential options (including scenario analyses)
 - Propose the options to GLC’s Board and plan implementation program accordingly
- Once the pilot is finalized, roll-out plan for additional GLCs should occur:
 - Codified learnings to be presented at PCG and open for dissemination to GLCs requesting help
 - Monitoring process to follow up implementation efforts in other GLCs

Objectives, rationale, key initiative outputs and preconditions for success	ENHANCE OPERATIONAL IMPROVEMENTS	
	Options for “right-sizing” organisations	Number III.10.2.1

Objectives

- The goal of this initiative is to increase the efficiency and/or effectiveness of GLCs through the identification of “right-sizing” options. These options include, but are not limited to Voluntary Separation Schemes (VSS), outsourcing, franchising, re-engineering of certain functions, and redeployment (or retraining).

Rationale

- Currently, compared to private sector peers, some GLCs have relatively low efficiency and effectiveness. With impending deregulation and increased competition, this gap will have to be narrowed in order for GLCs to be competitive – the implementation of these “right-sizing” opportunities is one way to achieve this.

Expected outputs from this initiative

- Review of key cost levers at 1 or 2 pilots completed to identify the different and most appropriate options for GLCs to “right-size” their organisations
- The main learnings from this pilot, both in terms of outcomes as well as methodology for analysis and evaluation, will be codified in Guidelines and thereafter disseminated to other GLCs

Prerequisites for success

- Buy-in from relevant stakeholders: GLCs Boards, top management, employees
- Strong management team to drive project

Potential risks

- Lack of political or management will to implement the options identified

Rationale and objectives for developing Customer Charter Guidelines for monopoly companies	IMPROVE CUSTOMER SATISFACTION	
	Customer charters – “BROWN BOOK”	Number III.10.3.1

Objective

- Establish Guidelines (referred to as “The Brown Book on Customer Charters”) for GLCs operating in natural monopolies to enhance their customer service levels by explicitly committing to specific service obligations
- With a commitment to improve service delivery, it is expected that
 - Customer and public perception of the relevant GLC improves
 - Number of customers, through increased customer satisfaction, increases
 - organisational and customer service processes improvements identified and implemented
 - Other sectors, e.g., public sector, adopt similar practices

Rationale

- Service organisations that are able to articulate their value proposition through Customer Charters and Agreements are then able to: (i) increase the perceived value of their services, (ii) increase customer confidence, and (iii) enhance differentiation against competitors
- Would provide a tool or mechanism whereby companies in monopolistic situations are required to focus on client needs, thereby increasing accountability of the organisation to increase quality and service levels
- Current GLCs operating in natural monopolies already have a number of initiatives oriented to enhance customer satisfaction, but lack clearly articulated publicly available Customer Charters and Customer Agreements that define precise standards of delivery and consequences of missing the standards
- Committing to high delivery standards will force GLCs to assess need for additional requirements, e.g., new CAPEX investments, different pricing structures.
- Additionally, initiatives to improve service delivery may result in increased profitability through improved customer loyalty, increase in share of wallet and attracting new customers

Expected outputs, pre-conditions for success and potential risks	IMPROVE CUSTOMER SATISFACTION	
	Customer charters – “BROWN BOOK”	Number III.10.3.2

Expected outputs from this initiative

- Guidelines to assist relevant GLCs to create customer charters, will be codified as the “Brown Book on Customer Charters”.

Prerequisites for success

- Upon receipt of the Guidelines, ability to identify the critical factors that will increase value of services to customers
- Board and top management commitment to providing superior customer service
- Capability and capacity of GLC to deliver on expectations outlined in Customer Agreement

Potential risks

- Over-promises and under-deliveries can have both image and monetary repercussions if penalties and compensations are proposed in the Customer Charters
- GLCs unable to make necessary investments to develop capabilities and capacity needed to deliver service obligations, e.g., due to prices being set too low by regulators

Next steps to accelerate the creation of specific customer charters in GLCs operating in natural monopolies	IMPROVE CUSTOMER SATISFACTION	
	Customer charters – “BROWN BOOK”	Number III.10.3.3

Next steps

- Launch a coordinated effort to develop the required Guidelines
- Follow through on the proposed Guidelines with a pilot by one of the GLCs. Main activities to be undertaken include:
 - Clarification of overall business strategy as it relates to customer service levels
 - Assessment of initial situation on customer requirements
 - Identification of gaps between current and desired performance level in terms of customer services
 - Determination of overall plan for developing the Customer Charter and Agreement
 - Creation of escalation procedures and processes
 - Develop Charter and Agreement
 - Develop communication plan for to introduce new Charter
 - Document key challenges for Manual
 - Draft Guidelines to help transfer the knowledge captured in the pilot
- In parallel, before the Guidelines are issued, Boards of relevant GLCs should recommend that senior management begin the process of creating comprehensive customer charters