

A Conceptual Framework For Building An Execution Oriented Enterprise

2009 Presentation Cornell University
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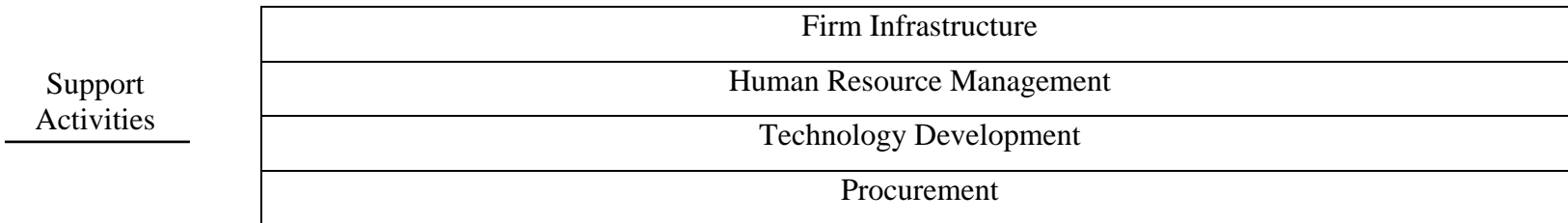
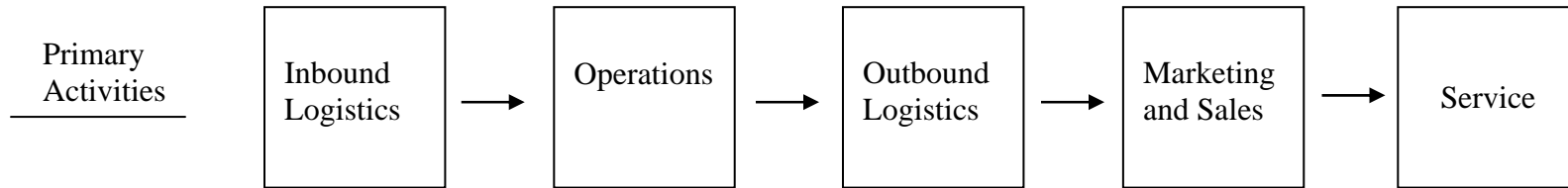
The Value Chain

The **value chain** is a concept from business management that was first described by Michael Porter in his 1985 best-seller, *Competitive Advantage: Creating and Sustaining Superior Performance*.

A value chain is a chain of activities that products pass through. At each activity the products gain some value. The chain of activities presumably give the products more added value than the sum of individual values from each activity.

Capturing the value generated along the chain is an approach taken by many management strategists.

The Generic Value Chain
(Porter 1985)



Description of Generic Value Chain Activities

Primary Activities:

- **Inbound logistics** include the receiving, warehousing, and inventory control of input materials.
- **Operations** are the value-creating activities that transform the inputs into the final product.
- **Outbound logistics** are the activities required to get the finished product to the customer, including warehousing, order fulfillment, etc.
- **Marketing & Sales** are those activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing, etc.
- **Service** activities are those that maintain and enhance the product's value including customer support, repair services, etc.

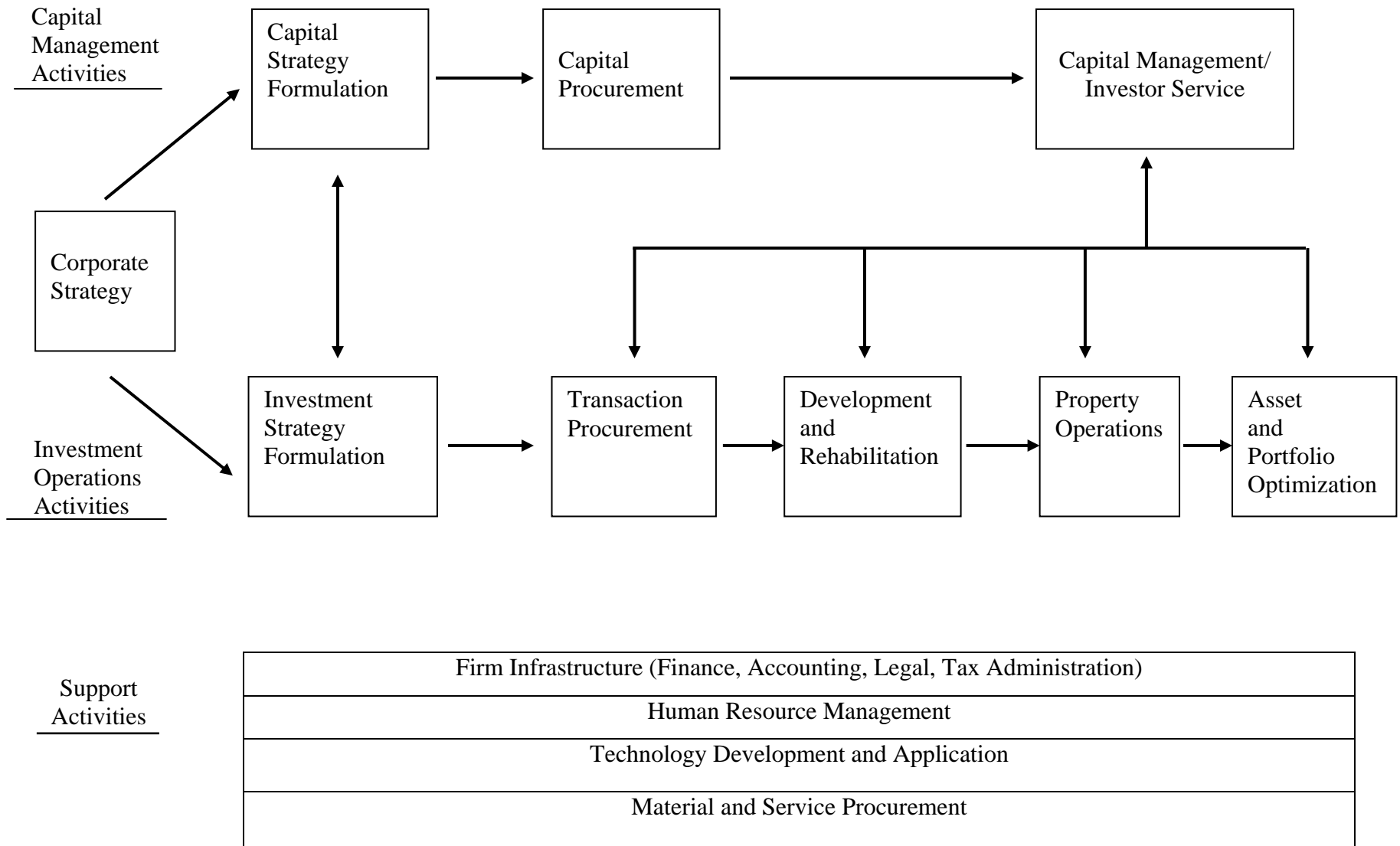
Support Activities:

- **Firm infrastructure** – includes activities such as finance, legal, quality management, etc.
- **Human Resource Management** – the activities associated with recruiting, development and compensation of employees.
- **Technology development** – includes research and development, process automation, and other technology development used to support the value-chain activities.
- **Procurement** – the function of purchasing the raw materials and other inputs used in the value-creating activities.

Berkshire's Use of Value Chains

1. Value Chain for Enterprise
2. Subsidiary Value Chains Exist for Each Primary Activity of the Enterprise's Value Chain
3. Investment Value Chain Maps Components of an Asset's IRR that Each Primary Activity Drives
4. Performance Management Value Chain Links Human Resource Talent with Firm's Strategic Activities and Return Objectives

Value Chain for Real Estate Investment Enterprise



Berkshire's Use of Value Chains

√ 1. Value Chain for Enterprise

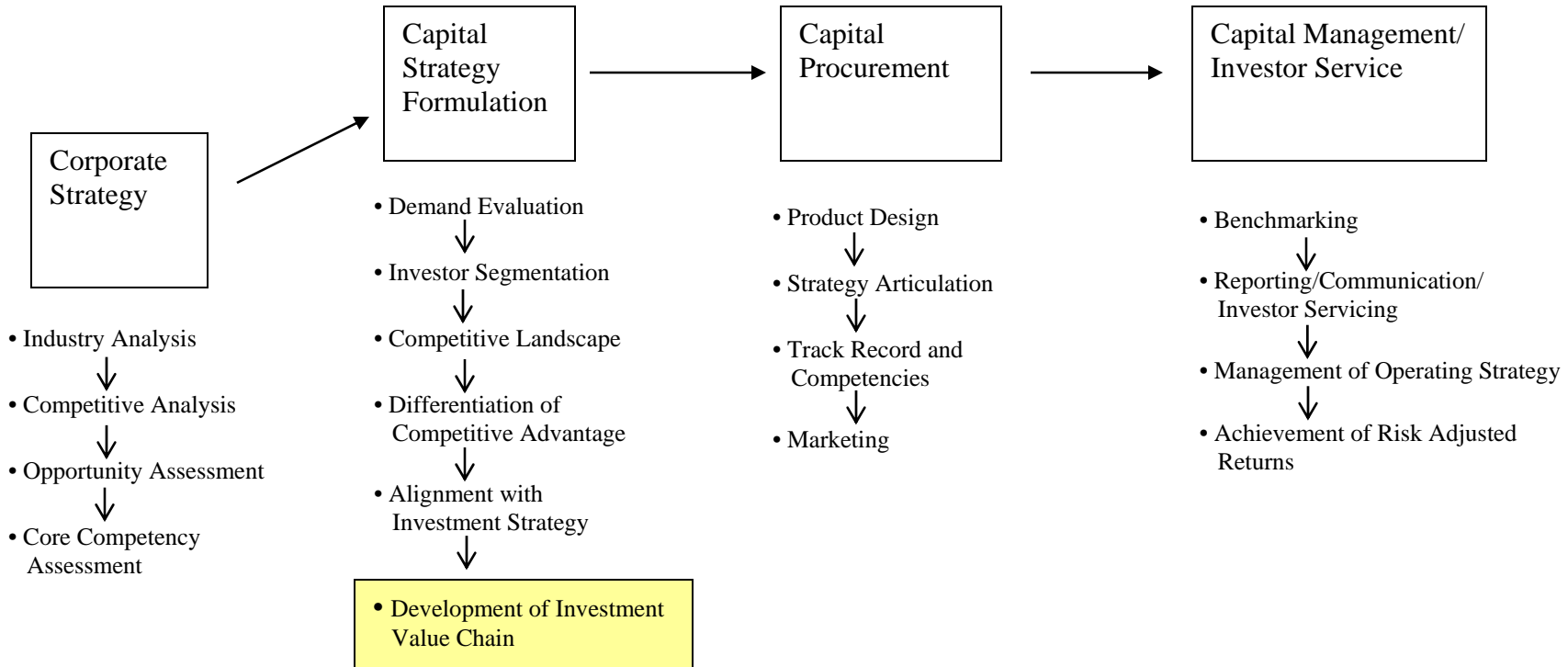
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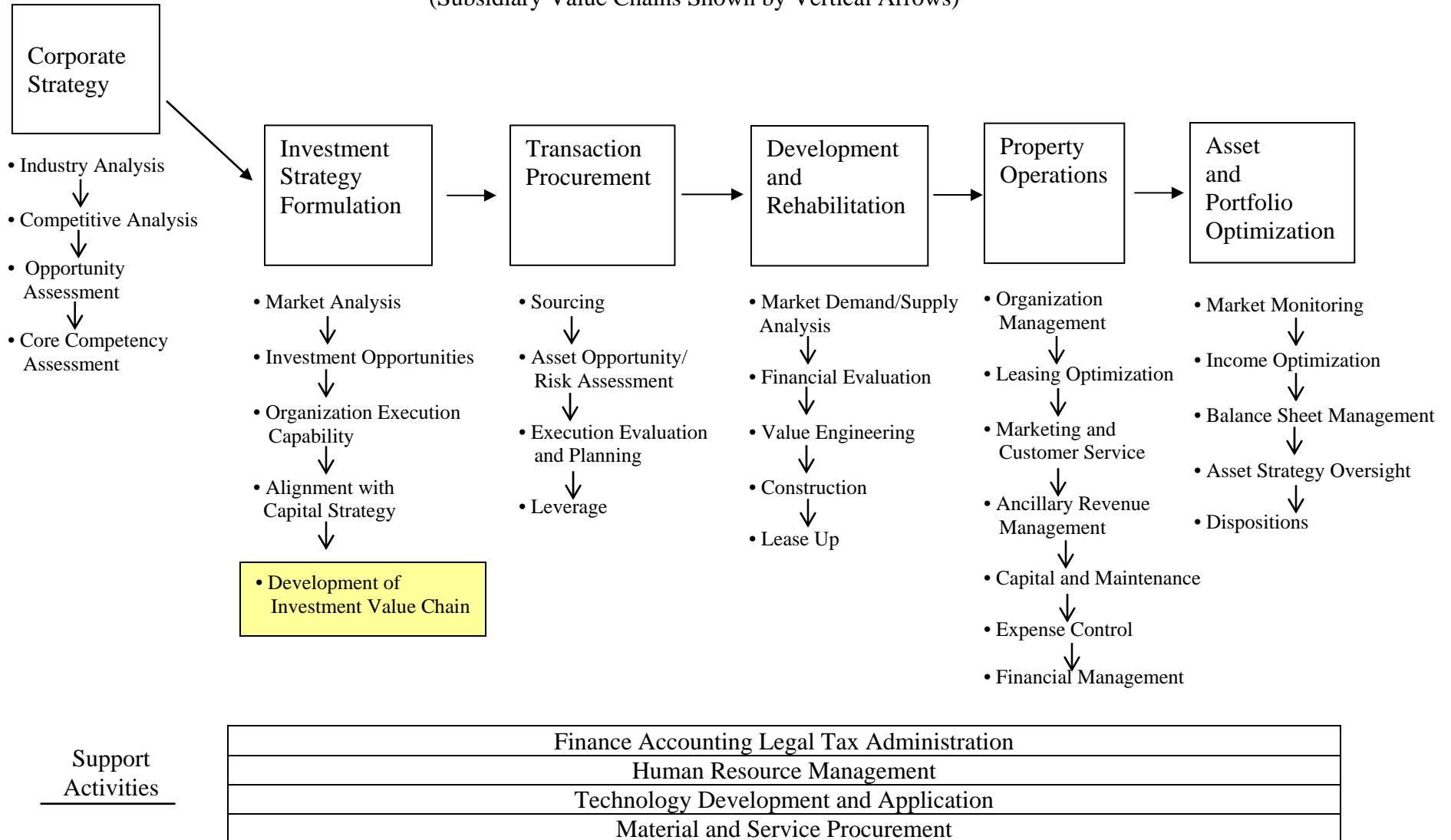
Value Chain for Capital Management Activities

(Subsidiary Value Chains Shown By Vertical Arrows)



Support Activities	Finance Accounting Legal Tax Administration
	Human Resource Management
	Technology Development and Application
	Material and Service Procurement

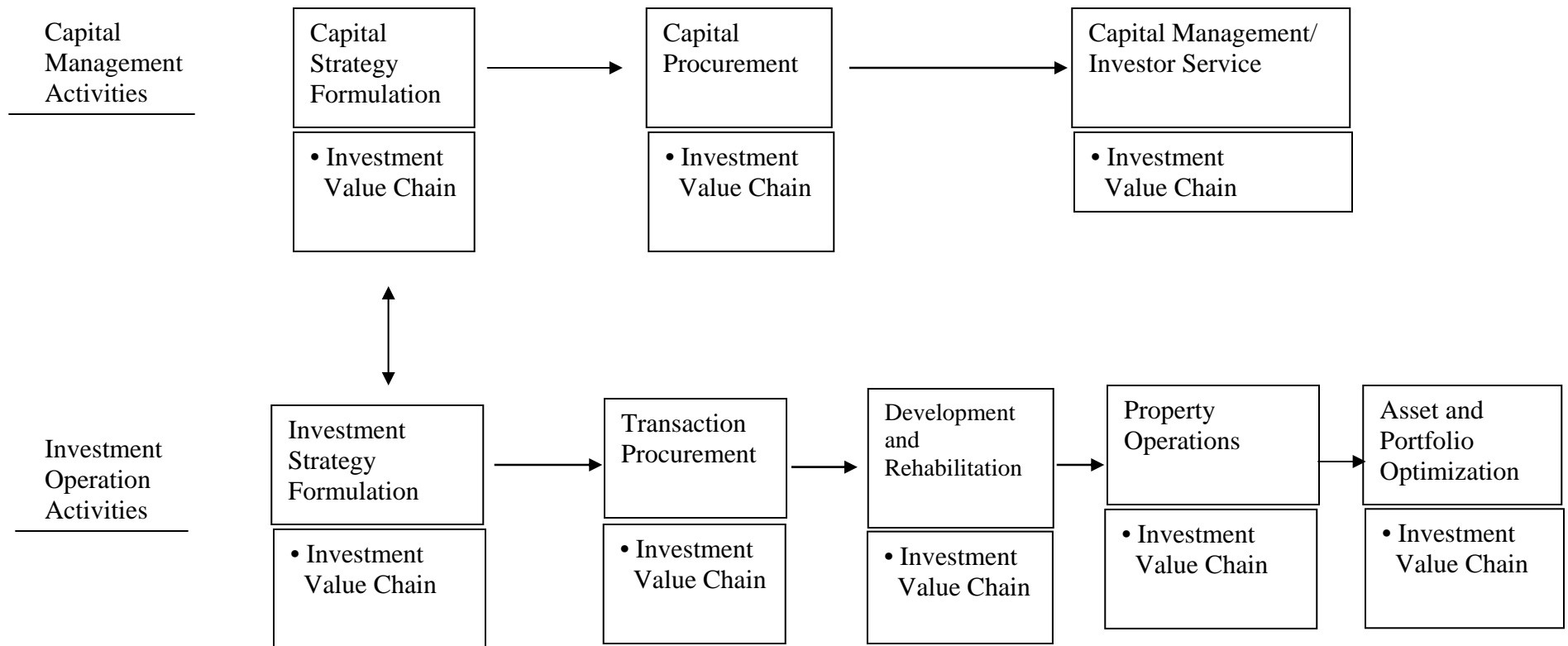
Value Chain for Investment Operations Activities
 (Subsidiary Value Chains Shown by Vertical Arrows)



Berkshire's Use of Value Chains

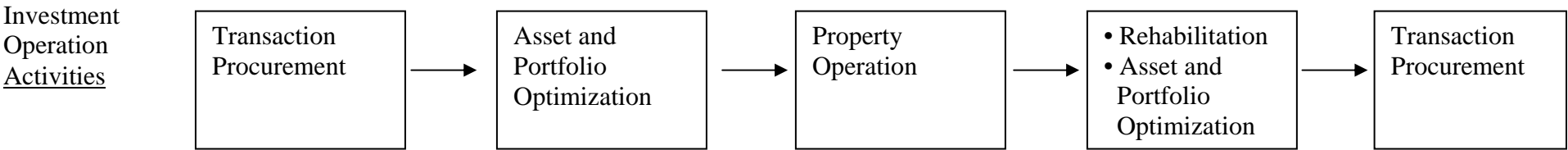
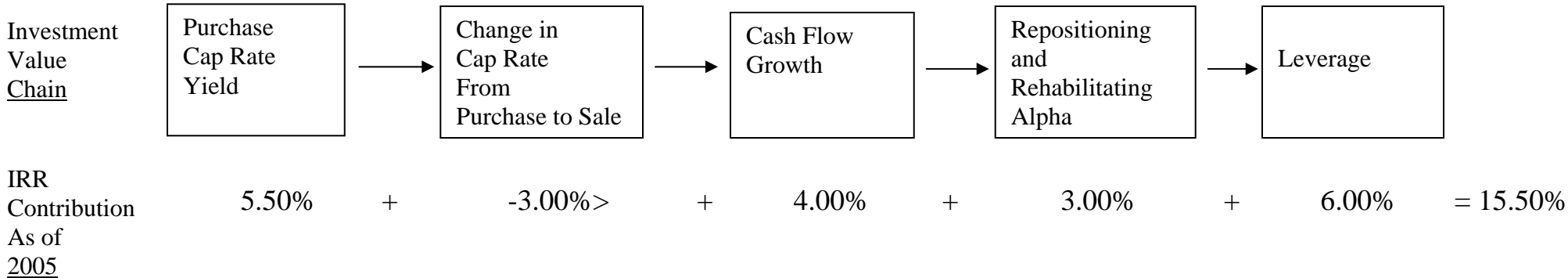
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Investment Value Chain Connects Primary Activity of Real Estate Enterprise with Performance Objectives

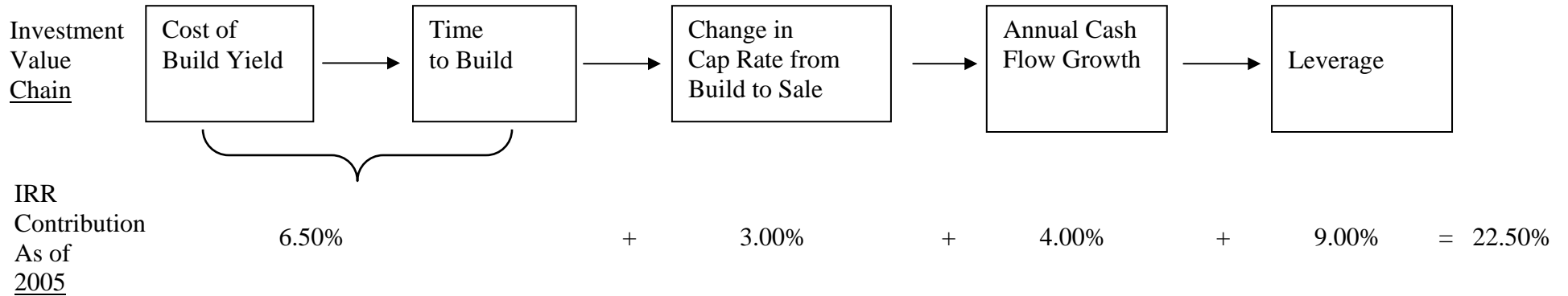


Investment Value Chain for Real Estate Acquisitions

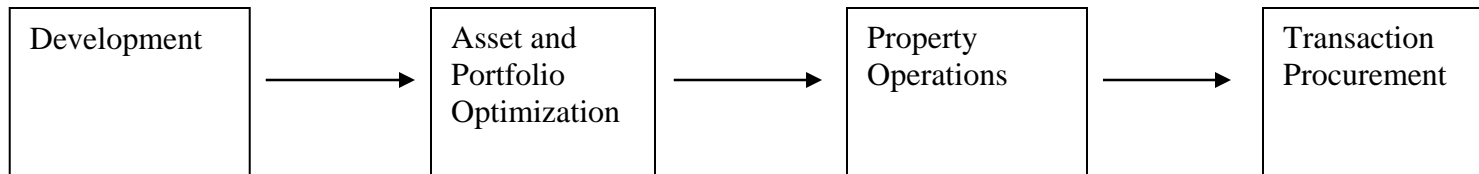
(Maps Components of an Investment's IRR)



Investment Value Chain for Real Estate Development
(Maps Components of an Investment's IRR)



Investment Operations Activities



Real Estate Supply Chains

- Supply chains exist when components of a value chain or subsidiary value chain are outsourced to external providers.
- Active management of outsourcing relationships are required to optimize the deliverables from the supply chain.
- Ideally companies would like to outsource:
 - Commodity activities that can be executed cheaper and more efficiently.
 - Non commodity activities where the company is an important customer to the outsourced provider's business.

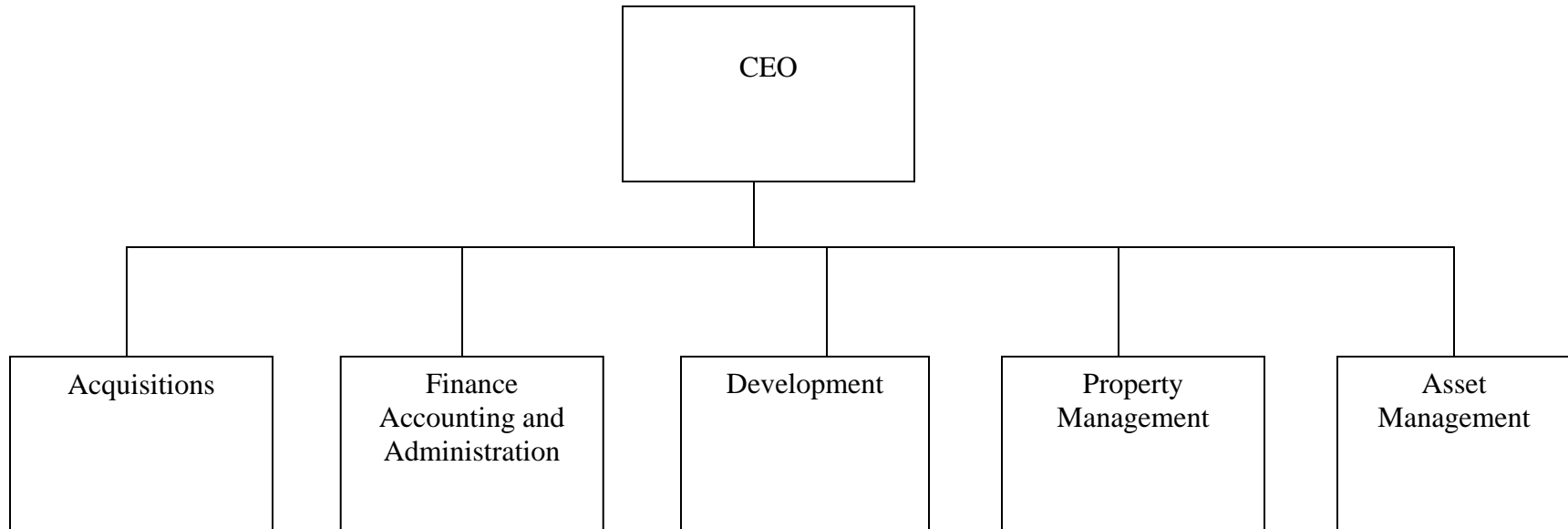
Prevalent Examples of Real Estate Supply Chains

<u>Organization Outsourcing</u>	<u>Value Chain Components Being Outsourced</u>	<u>Corresponding Subsidiary Value Chain Components Being Outsourced</u>
<ul style="list-style-type: none"> • Large Real Estate Advisors 	<ul style="list-style-type: none"> • Transaction Procurement • Development and Rehabilitation • Property Operations 	<ul style="list-style-type: none"> • All • All • All
<ul style="list-style-type: none"> • New Entrants to Capital Markets 	<ul style="list-style-type: none"> • Capital Strategy Formulation • Capital Procurement 	<ul style="list-style-type: none"> • All • Procurement Marketing
<ul style="list-style-type: none"> • Hotel Real Estate Investors 	<ul style="list-style-type: none"> • Property Operations • Development and Rehabilitation 	<ul style="list-style-type: none"> • All • All; Development Construction
<ul style="list-style-type: none"> • Office Real Estate Investors 	<ul style="list-style-type: none"> • Property Operations • Development and Rehabilitation 	<ul style="list-style-type: none"> • Operations Leasing • All; Development Construction
<ul style="list-style-type: none"> • Multifamily Real Estate Investors 	<ul style="list-style-type: none"> • Property Operations • Development and Rehabilitation 	<ul style="list-style-type: none"> • All • All; Development Construction

Organization Should Be Structured to Optimize
A Company's Value Chain, Not Vice Versa

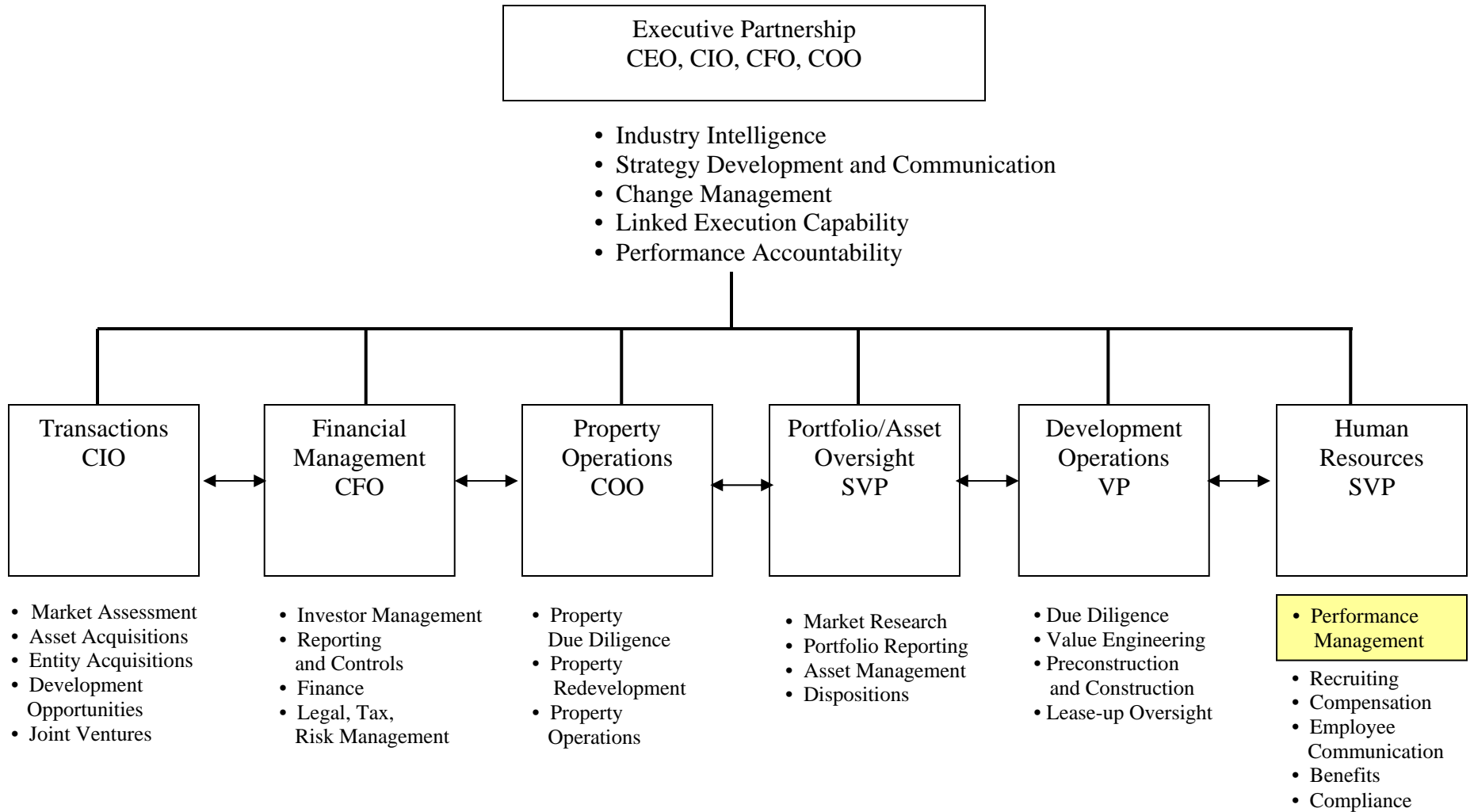
Traditional Organization Structure

(Functional With Little Cross Collaboration)

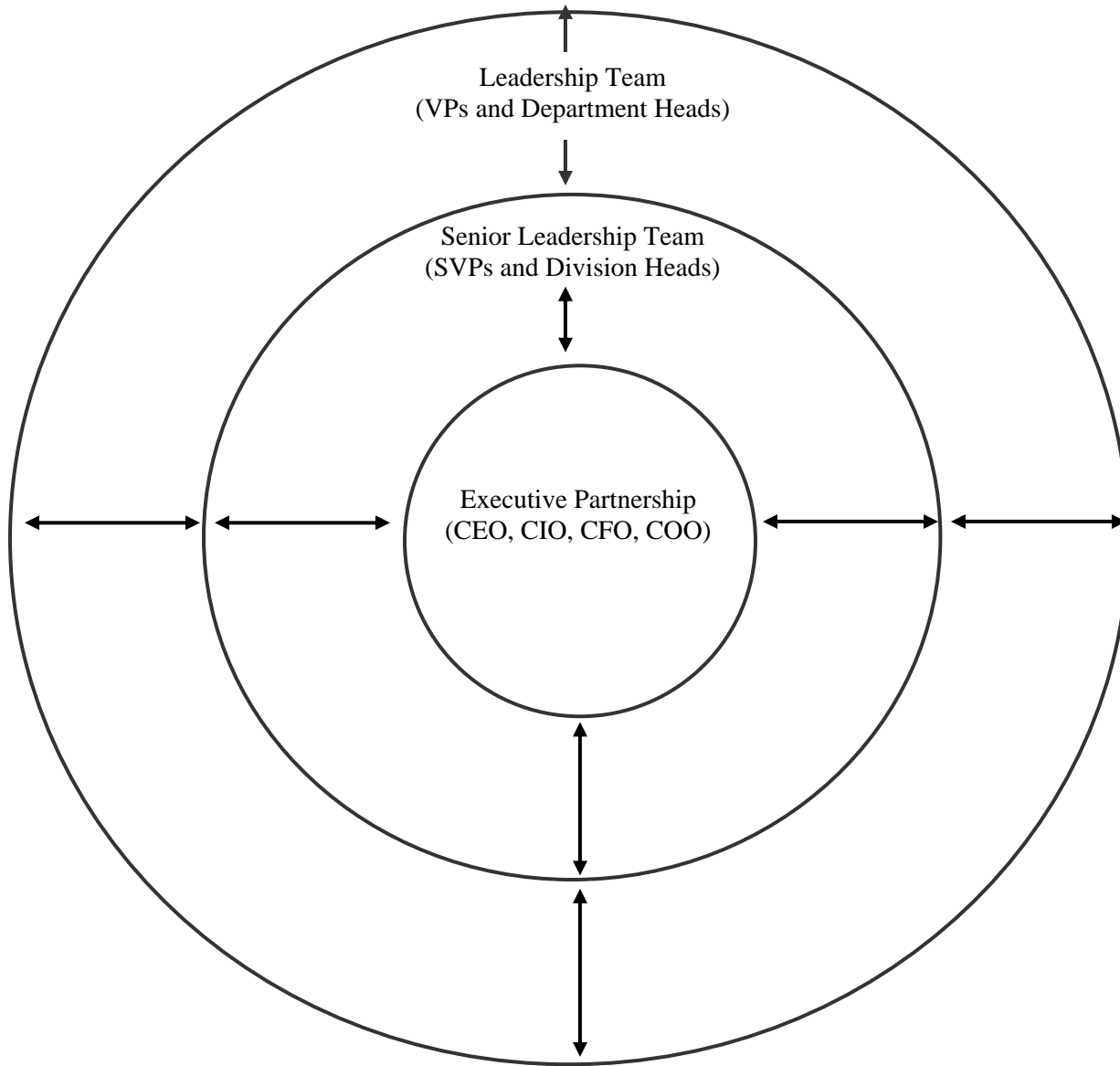


Berkshire Organization Structure

(Value Chain Driven With Significant Cross Collaboration)



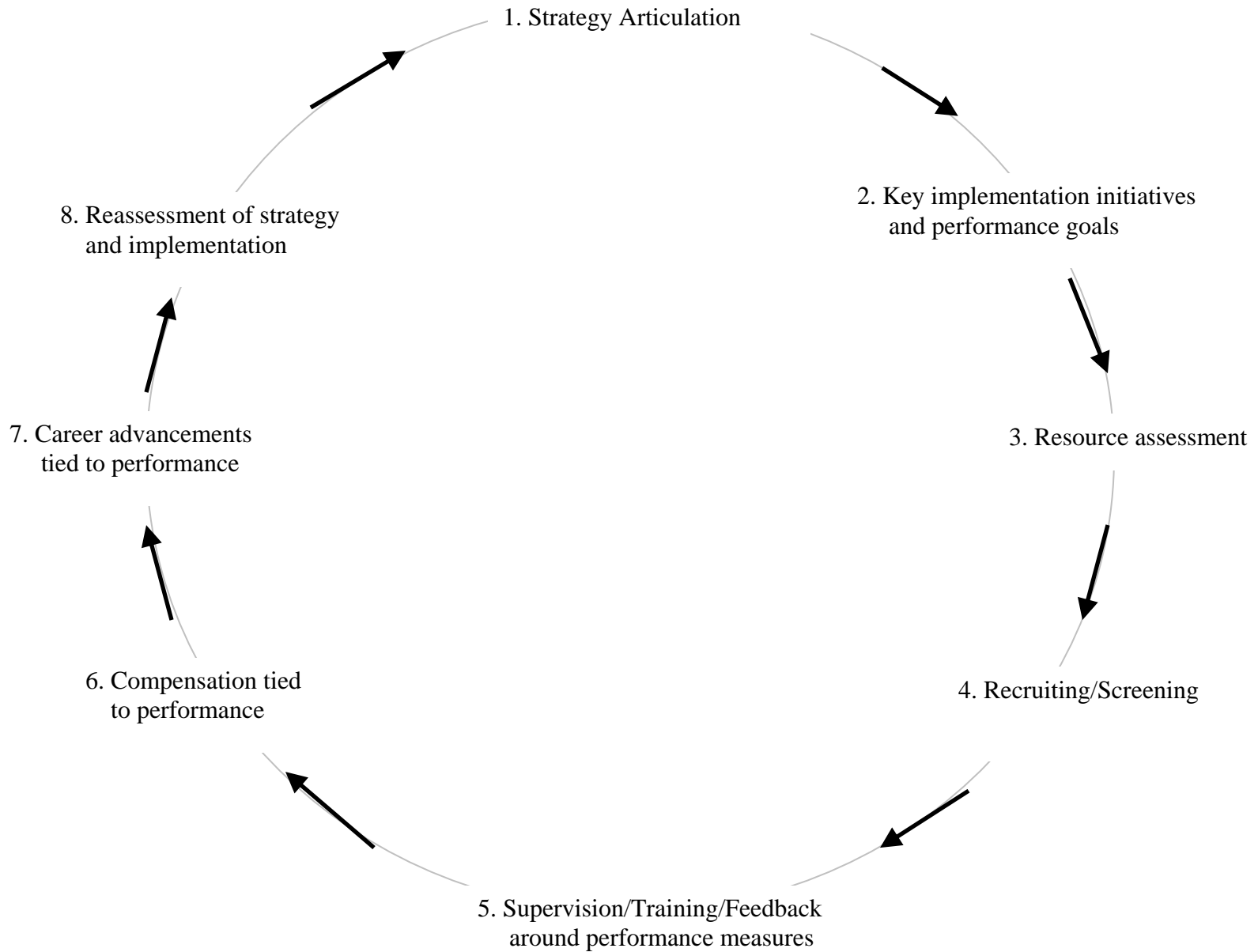
Berkshire Leadership Structure and Communication Schematic



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Value Chain for Integrated Performance Management System



Elaboration of Integrated Performance System Drivers

1. Strategy articulation:
 - Logical, understandable with “buy in”.
 - Implementable.
2. Key implementation initiatives and performance goals:
 - Goals by department linked to strategy and divisional goals.
 - Goals for each individual linked to department goals.
3. Resource assessment
 - Do we have the right functions in place?
 - Do we have the right skill sets and talent in each function?, (overseen by boss’s boss)
4. Recruiting/screening
 - Recruiting mapped against skill set required, (use of coordinated, diversified screening team).
 - Linked to job goals of strategy.
 - Supervisory infrastructure in place.

Elaboration of Integrated Performance System Drivers

5. Supervision/Training/Feedback around performance measures
 - Link between employee and direct supervisor most important of all relationships.
 - Identification of what performance measures are needed for accomplishing strategic goals.
 - High quality “on-boarding” process.
 - Flexible and adaptable style of supervisory management required based on skill set and experience of employee.

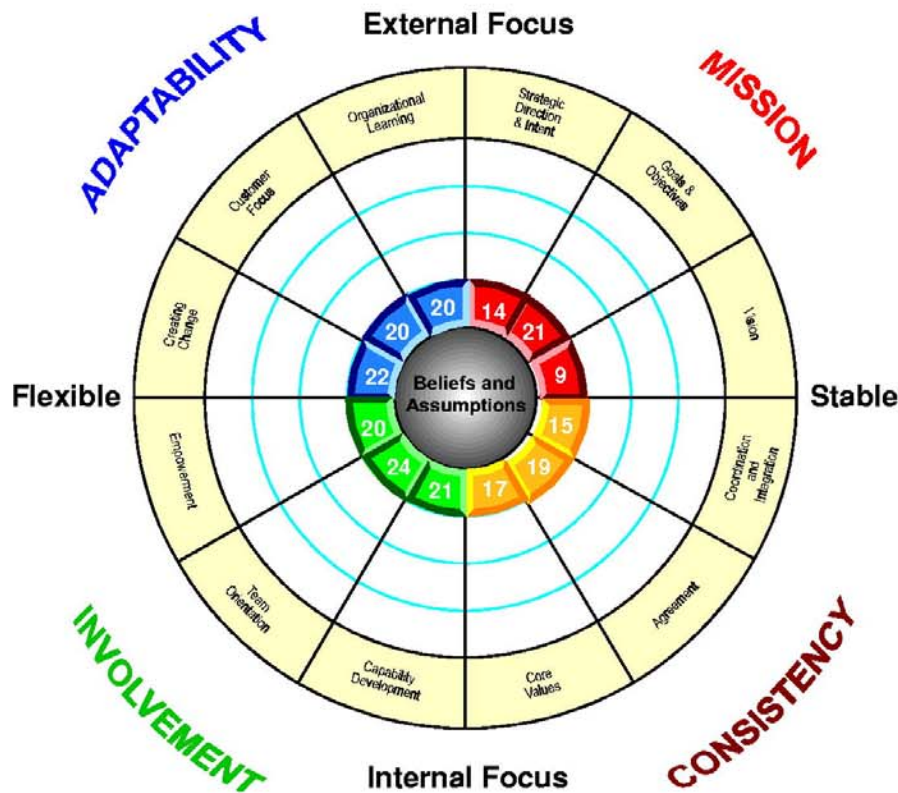
6. Compensation tied to performance
 - Compensation benchmarked to market
 - Bonuses tied to quantitative and qualitative goals.
 - Long term compensation tied to strategy’s successful financial results.
 - Linkage between performance and pay is vital.

7. Advancement tied to performance
 - Framework for decisions about employee (should be overseen by boss’s boss):
 - Hold in place
 - Invest in training and development
 - Promote to next level
 - Retire employee
 - Development plans between supervisor and employee.

8. Reassessment of strategy and implementation
 - Does current strategy still hold?
 - Have accomplishments been met?
 - Are goals still reasonable?
 - Did we get the right resources on board?
 - Did we provide the right supervision?
 - Were we effective in linking interdepartmental activities?

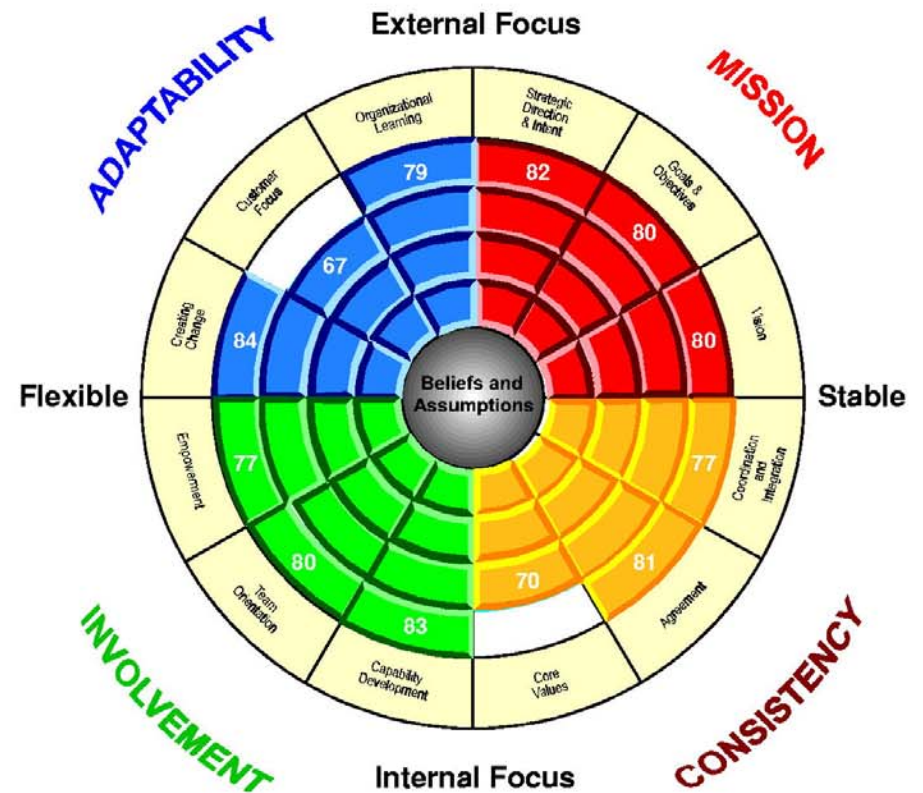
Return on Shareholder's Equity

Low Performance Culture



Average ROE = 6%

High Performance Culture



Average ROE = 21%

*Study of 161 publicly traded companies from a broad range of industries (Denison Consulting)

Elements of Berkshire Property Advisors Culture

We believe the following thirteen elements of culture are key to creating high performance and satisfied and motivated employees:

- **Employee's Developed** to achieve goals and retain employees
- **Pay and Performance linked** for accountability and reward
- **Resident/Customer focus** as key to maximizing value
- **Consistency** in approach
- **Proactive** orientation to opportunities and issues
- **Good Communication** of goals and other information to those who need it
- **Core Values** as a guide to action
- **Empowered Employees** to make decisions associated with their work
- **Team Orientation** in getting work done
- **Clear Goals** to define how future will be achieved
- **Clear Vision** of the future
- **Value Enhancement** approach to property operations/investment
- **Employee Accommodation** to create Work/Life balance as a competitive differentiator in the labor market

Berkshire Culture Gaps by Year Scale = 1-10

