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Where, Oh Where, Should I Go?

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The first step in building a successful business is determining where to locate its primary business units. Locational decisions are both highly strategic and incredibly complex. Today both companies and individual workers have far more choices about where to carry out their business. Research conducted by the Future of Work project shows that the factors driving locational decisions are changing. The most significant source of change is the rapid growth of distributed work — that is, work done by teams of people who aren't in the same place at the same time.

Every once in a while the rules change. The economy is in the middle of fundamental transformation. Talent is replacing land, capital and raw materials as the primary source of competitive advantage, but the goals and expectations of that talent have also shifted. The talent that matters today is engaged in knowledge work – activities that are information intensive, global in scope, highly varied and can frequently be done from almost anywhere on the planet.

Three major drivers are causing a tectonic shift in how corporate locational decisions are made. First, the basic demographics of the global workforce (age, gender and ethnic diversity) have changed dramatically and will continue to do so at a faster rate for the next decade or two. Second, the basic implied social contract between workers and the organizations that employ them is being re-negotiated. Quietly, but with a resurgence of business growth, this trend will also change quickly. Third, these two fundamental trends provide a multiplying effect in which businesses begin to transform their core business models, moving from centralized, tightly coupled functional organizations to highly dispersed networks of suppliers, business partners, distributors and customers.

The Changing Nature of Work and Shifting Workforce Demographics

Today the most highly valued employees of large organizations are the scientists, engineers, professors, artists, technicians, actors and designers of almost everything. They are highly educated, mobile and diverse. Members of this “creative class” do a wide variety of work in a whole range of industries — from technology to entertainment, journalism to finance, high-end manufacturing to the arts. They do not consciously think of themselves as a class, yet they share a common ethos that values creativity, individuality, difference and merit.

In addition, several interacting factors are leading to a significant increase in the basic diversity of the workforce. The term “diversity” refers to not just who people are and what skills they bring to work but also to where and when they work, and to what kind of “employment” arrangements they have. But the diversities that matter most to large organizations are age, gender and ethnicity.

Research shows that the most fundamental driver of diversity today is a demographic one — the decline in birth rates in virtually all developed countries around the world. The workforce is aging, and it is growing at a much slower rate. The result is a much broader range of ages in all professions — *generational* diversity is the new reality. The shrinking number of new entrants to the workforce means more importing of labor, more exporting of work, more use of consultants and part-timers, and a growing need to keep older workers in the active labor pool.

Younger workers in particular bring significantly different perspectives to the workplace. Many of them today choose where they want to live first, and only then seek opportunities for employment. Major urban centers like New York City, Chicago, and Los Angeles are declining in attractiveness, while mid-sized communities like Austin, Texas; Seattle; Albany, N.Y.; and Portland, Ore., are becoming much more popular. In addition we are seeing an explosion in the number of what author Dan Pink calls “free agents” of all ages — individuals who choose to work for themselves rather than as employees of large corporations. In the United States there are already close to 20 million free agents, and the number is growing every year.¹

The net result is a much more complex labor pool, with a wide range of preferences and expectations for workplace and technology support. This labor pool has a vastly different (and varied) set of criteria for choosing where to live and for whom to work. Even more relevant, these workers have very different work styles and levels of interest in working in corporate facilities, home offices and the whole gamut of “third places” like coffee shops, libraries, print shops like Kinko's, hotel rooms, conference centers and all the other locations where work gets done these days.

Changing Contracts With the Workforce

The implicit social contract that once existed between individuals and organizations has been broken. Loyalty bonds have been severed and people are becoming much more mobile — moving more frequently between jobs and companies. One recent survey indicates that up to 30 percent of the current workforce is likely to change jobs as the economy begins to improve.²

One of the primary motivators for this “new” workforce is a belief that quality of life is more important than compensation. This fact implies a movement of significant parts of the “creative class” workforce to geographies with pleasant weather, access to a variety of recreational venues, good education, physical safety and a stimulating community. Given

¹ See Daniel Pink, *Free Agent Nation*, New York: Warner Books, 2001.

² Louis Lavelle, “After the Jobless Recovery, A War for Talent,” *Business Week*, September 29, 2003.

these workforce goals, the changing contract with talent essentially requires businesses to locate in areas with those characteristics. This is a dramatic change from the central business district of days gone by — the high-cost, congested urban areas that spurred much of the economic growth in the past few decades.

Research also indicates that these workers increasingly bring their own “infrastructure” and tools with them to the job. It's sort of like skilled trades people who transport themselves to the job site, bringing their own tools and materials. Certainly the cost of technology has decreased so dramatically in recent years that most people have their own computers, cell phones, PDAs, printers and whatever else they need to conduct business remotely. In addition, there is a trend toward, “I have my own office, I don't need (or want) your office space. I don't need it to do the work you want me to do.”

Changing Business Models

Basic business models are also changing. Successful organizations are going global as fast as they can. Globalization used to be driven by access to raw materials, cheap industrial labor and access to emerging middle-class markets. Now the primary driver of globalization is access to these new talent pools. Today you need to ask, “Where are the best software engineers, accountants and architects?”

Organizations are also becoming more networked — both within their own boundaries and across boundaries with their business partners. The flow of information is becoming seamless as companies combine forces for specific projects, link closely to their customers and suppliers, and recombine in new configurations as business needs dictate. Networked organizations don't need to coexist in the same geography because technology is the glue that binds them together.

The last factor that is driving change in business models is the increased pressure for companies to move as many of their fixed costs to variable ones as they can. This strategy allows them to become much more agile and to grow, expand or shrink much more easily. Physical facilities are the largest fixed-cost most companies have today. This focus on lowering fixed costs implies negotiating shorter lease terms, building fewer of your own facilities, and reducing long-term investments in basic physical assets.

New Criteria for Location Decisions

Decisions about where to locate business units and their facilities have traditionally been made primarily on the basis of the cost of land and equipment, the availability of a stable workforce, “ease of doing business,”³ proximity to markets and minimizing transportation costs. These factors have grown out of an industrial paradigm in which raw materials, manufacturing and distribution costs were the prime drivers of the bottom line.

³ Usually a combination of the tax base and the level of government regulations.

Not that these other factors won't continue to be important in strategic locational decisions, but access to *social capital* will gain prominence. Social capital is a broad concept that includes workforce values, alignment with the company's mission and goals, and the larger community within which the business is located.

These more social and more complex factors represent a powerful challenge in the real estate and facilities management professions. This "new world" means there must be a much closer link between facilities planning and human resource decision making.

Lastly, the events of September 11, 2001, and those that followed in quick succession, made it clear that business operations located in the continental United States are vulnerable to terrorist attacks. In fact, our new sensitivity to terrorism has also made us much more aware of other factors that threaten business continuity: natural disasters like fires, earthquakes, and hurricanes; regional economic downturns; reliable sources of water and power; changes in local and state government taxation practices; zoning changes; and many more.

How to Make Decisions in the Future

Strategic real estate decision making in the future must begin by answering three core questions:

1. Where's the talent?

What kind of talent do you need, today, tomorrow and in five years? Where does that talent *want* to live and work? Are there universities and colleges in those locales that can provide you with an ongoing stream of talent? What kind of community amenities are there that would be attractive to your target talent pool?

2. Where's the technology support?

You will have more work places than you used to have. All of them must be connected both within the local community and across geographic regions. Reliable high-speed Internet access is an absolute must. So is DSL, or equivalent access, in residential areas so that home-based workers can connect easily to regional corporate facilities and data.

3. Where's the multiple location(s) opportunity?

Which communities provide you and your workforce with an opportunity to connect central offices, home offices and "third places" efficiently? Looking at existing transportation infrastructure is often a good indicator, because "third places" tend to cluster around transportation nodes. Metropolitan areas with poor public transportation systems would rate lower as candidate locations.

Another broad facilities management challenge will be how to support work in a wide variety of places, many of which you don't own or even manage. There is no easy, quick answer to

this challenge. But it is one that will play a central role in making locational decisions in the future.

Bottom Line Impact

What does all this mean for business success? Knowledge is clearly the primary source of competitive advantage, and knowledge workers drive business success.⁴ Yet most companies are not managing knowledge workers effectively. They don't provide workplaces, working conditions, or technology support that meet the wants and needs of their most critical resource, but our research suggests that the costs of the support they do provide are typically 40 percent to 50 percent higher than they should be.

To be even more blunt, we believe that the creative, integrated management of knowledge workers, the places they work and the technology tools and infrastructures they rely on can *reduce workforce support costs by as much as 30 percent* while substantially improving worker productivity, effectiveness and satisfaction.

Deciding where to locate a business is the first step in this process. Locating your business where the talent is drives all other locational decisions. You will probably find that you need to access several discrete labor pools, and they are not all in the same place. You need to develop a strategy of workplaces in which numerous satellite locations are connected to home offices and to public "third places," so that people can use today's technology to plug into the "workplace" no matter where they are.

About The *Future of Work* Community and the Work Design Collaborative

Future of Work is a global network of resources – practitioners, thought leaders, researchers, and senior consultants – who are committed to building and implementing physical, social, and technology-based work environments that are cost-effective, socially and environmentally responsible, and personally satisfying.

We are focused on defining the future of work and helping our clients achieve new levels of workforce and workplace productivity. *Future of Work* produces and distributes management tools, surveys, benchmark databases, white papers and technical reports, conferences and workshops, newsletters, books and articles, and public presentations on the changing nature of work. The Work Design Collaborative, LLC, provides leadership and infrastructure services for the *Future of Work* community.

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⁴ By "knowledge worker" we mean those individuals whose primary tasks involve the collection, creation, or processing of information to produce new ideas and new designs, to solve problems, or to process transactions. This is admittedly a broad definition; there are of course many different kinds of knowledge workers who individually carry out a wide variety of tasks. Our primary focus in this paper is on workers who use, process, or create information, as opposed to those who build physical things (i.e., manual laborers) or provide simple services (such as retail sales clerks).