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ARISE – Building upon the leading edge

Mastering real estate subsidiary management with the ARISE framework

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Executive summary

The real estate industry in Southeast Asia is experiencing significant transformations driven by market shifts which started since the COVID outbreak. This has prompted discussions about the level of involvement that parent companies should have in managing their subsidiaries. To address this challenge, Deloitte has developed the ARISE framework, offering a structured approach for conglomerates to enhance the efficiency and effectiveness of subsidiary management. This framework has been successfully applied by leading players in the industry, showcasing its practicality and relevance.

One notable example is a leading regional conglomerate in Asia that effectively managed more than a hundred subsidiaries by categorising them into four distinct models. This allowed for a customised management approach tailored to the differentiated needs of each subsidiary model. By leveraging Deloitte's governance operating model guidelines, the conglomerate ensured streamlined operations and addressed various operational scenarios and use cases with precision. Such strategic alignment proved to be instrumental in helping real estate conglomerates to overcome the complexity in subsidiary management.

As businesses continue to grow in both size and complexity, Southeast Asian real estate conglomerates are seeking approaches to optimise their subsidiary management and the ARISE framework provides a relevant roadmap. It involves strategic steps like grouping subsidiaries by their characteristics, implementing tailored management approaches, and optimising resource allocations across the organisation. In addition, continuous monitoring and adjustments based on performance metrics are also emphasised to ensure that the conglomerates meet their overarching corporate level objectives in a dynamic market environment.

The ever-changing real estate industry

The real estate industry has been experiencing significant transformations driven by the evolving market landscape and leading companies' continual strive for operations excellence. As market dynamics shift and consumer preferences evolve, real estate enterprises find themselves obligated to adapt and innovate to maintain their competitive edge. These transformations span various facets of the industry, such as changes in demand for different property types, technological advancements impacting property management and transactions, and evolving regulatory environments influencing development and investment strategies. Thus, real estate enterprises must continually monitor market trends, forecast future demands, and take strategic initiatives which enable themselves to leverage emerging opportunities while mitigating risks associated with market fluctuations.

The need to become an Exponential Enterprise: Navigating transformation and subsidiary dynamics in the real estate industry

Deloitte's latest study, "The Exponential Enterprise," highlights how winning companies address the challenges of a polycrisis to enjoy sustainable and exponential growth. These companies harness their change capacity to bolster their ability to win through continuously evolving transformational capabilities. Recognising the vital role of subsidiaries in leveraging such capabilities demands a new relationship paradigm —integrated, seamless, real-time, and bi-directional—facilitating the flow of insights and resources between parent companies and subsidiaries to fuel sustainable transformation and maintain a competitive edge. Deloitte's earlier publication, "The Leading Edge," released in June 2023, highlighted the pivotal role of subsidiaries in driving transformative changes in which it introduced four subsidiary archetypes: resource deployer, observer, playbook developer, and mandate owner for transformation.

Having these models identified, the parent company must then take proactive steps to continually improve the efficiency and effectiveness of subsidiary management. This requires implementing strong systems and processes to simplify communication, decision making, and resource allocation between the parent company and its subsidiaries. Additionally, the parent company must provide adequate support, resources, and guidance to the subsidiary to ensure alignment with the company's goals and strategy. By fostering a culture of collaboration, transparency, and accountability, parent companies can optimise subsidiary performance and drive overall organisational success.

Additionally, frameworks such as the **ARISE framework** offer a structured approach to subsidiary management, enabling organisations to effectively oversee their diverse business portfolio while maximising value creation through building competitive advantages. By prioritising **assessment**, **regrouping**, **investigation**, **strategising**, and **execution**, real estate enterprises can improve the performance and resilience of their subsidiaries in an increasingly complex and competitive business landscape.

The need to strike the right balance: Optimal parent company involvement in subsidiary operations

As Southeast Asian real estate industries grew over the past decade, leading regional conglomerates have diversified their portfolios and many are currently managing an increasingly complex business portfolios that cover different industries and require differentiated expertise and resources for them to excel and further grow in their respective segments. As a result, it has become a more compelling question of how a parent company can streamline their operations and support to meet the different needs coming from their subsidiaries. Hence, determining the optimal degree of involvement that parent companies should have in the operations of their subsidiaries is a nuanced decision with various tradeoffs. On one hand, increased oversight from the parent company can offer valuable guidance, support, and strategic direction to subsidiaries, ensuring alignment with corporate objectives and capitalising on synergies across subsidiaries within the organisation. However, excessive intervention may stifle innovation and autonomy at the subsidiary level, impeding agility and responsiveness to local market dynamics. **Striking the right balance necessitates careful consideration of factors, such as the strategic significance of the subsidiary, the parent company's expertise and resource availability, and the specific market conditions and regulatory framework within which the subsidiary operates.** Ultimately, parent companies must navigate a fine line between providing support and direction while empowering subsidiaries to innovate and effectively adapt to local market conditions.

How to strike the balance: Introduction to the ARISE framework

The ARISE framework is a holistic subsidiary management approach utilised by real estate enterprises and conglomerates spanning various industries. This framework aims to streamline and optimise subsidiary management within larger corporate structures. ARISE stands for:

Assess:
Ensure alignment of subsidiary goals, strategies, and operations with the parent company's overarching goals and mission.

Regroup:
Efficiently allocate resources, including financial, human capital, and technological resources, to subsidiaries based on strategic priorities and growth potential.

Investigate:
Facilitate seamless integration and collaboration between subsidiaries and other organisational components.

Strategise:
Develop and implement strategic plans for each subsidiary in alignment with the overall company strategy.

Execute:
Cultivate a culture of operational excellence across all subsidiaries, emphasising efficiency, quality management, and continuous improvement.

The ARISE framework offers a structured approach to subsidiary management, enabling organisations to effectively oversee their diverse business portfolios while maximising value creation and competitive advantage. By prioritising assessment, regrouping, investigating, strategising, and executing, companies can enhance the performance and resilience of their subsidiaries in an increasingly complex and competitive business landscape.

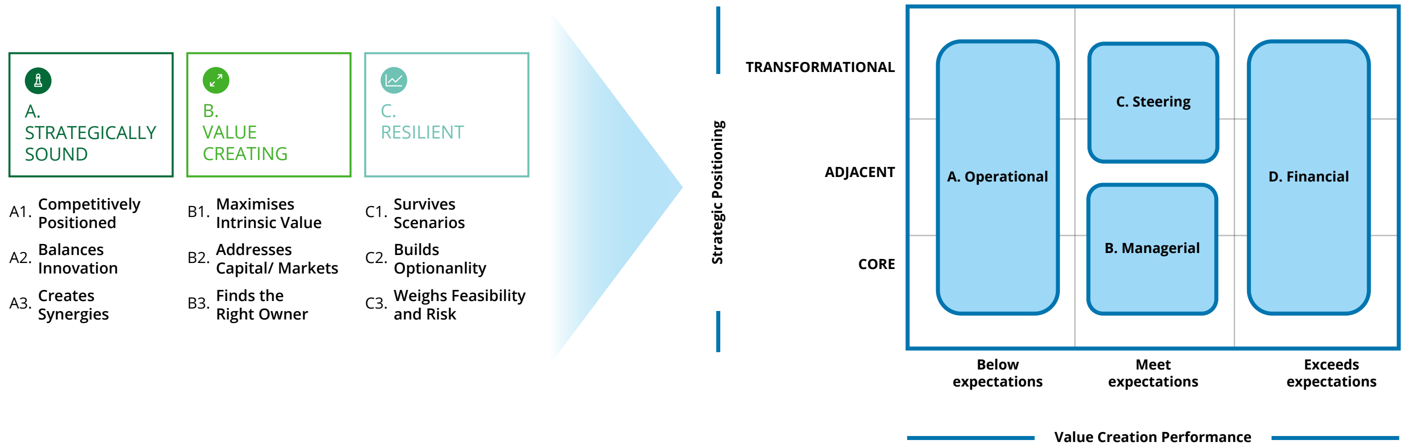
Strategic subsidiary allocation

Segmenting subsidiaries into four models based on their strategic nature and value creation performance—operational, managerial, directional, and financial—offers a comprehensive framework for effectively managing diverse business portfolios within the conglomerate or real estate industry.

ARISE is consolidated approach to manage diversified business portfolio

An Advantaged Portfolio or a robust business portfolio needs to be Strategically Sound, Value Creating, and Resilient ...

... Based on those criteria, subsidiaries can be grouped into four models to optimise governance & synergies

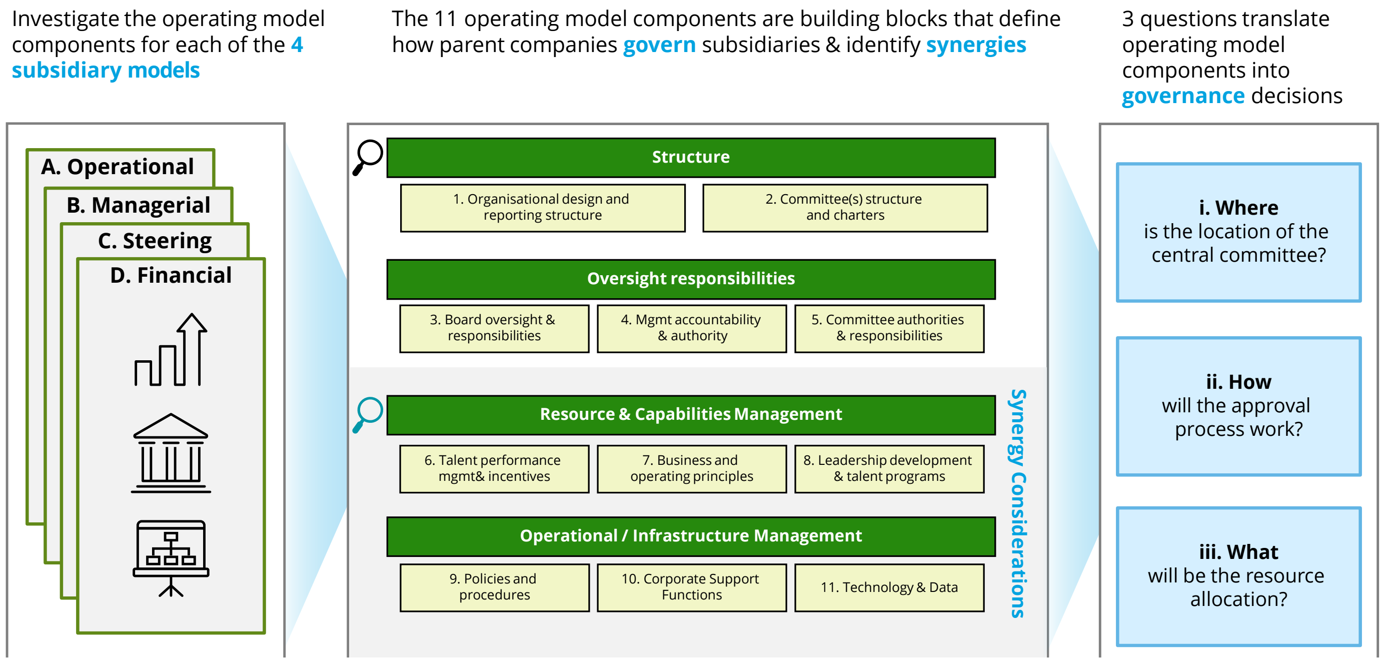


This allows conglomerates and the real estate industry to align strategic priorities, resource allocation strategies, and performance management practices effectively, maximising value creation and overall competitiveness. Each model signifies a distinct role and contribution within the organisation, ensuring subsidiaries are managed to support broader corporate goals.

11 governance operating model components

Strategic governance and synergy outcomes for each of the four subsidiary models—operational, managerial, steering, and finance—are delineated through the integration of 11 crucial operating model components. These components encompass organisational design, reporting structure, committee structures, board oversight, management accountability, talent performance management, incentives, business and operating principles, leadership development, talent programmes, policies and procedures, corporate support functions, and technology and data management. These elements play pivotal roles in shaping governance and synergy within each model.

Thereafter, 11 operating model components are used to define the governance and synergy outcomes for each of the 4 subsidiary models



Guiding questions for the governance operating model components:

01. Organisational design and reporting structure: Who does the subsidiary report to—the parent company or another subsidiary?
02. Committee structure and charters: Where are the committees located, and what are their chartered responsibilities?
03. Board oversight and responsibilities: What are the boards' responsibilities for the parent and subsidiaries and whom do they oversee?
04. Management accountability and authority: How do reporting lines translate into management accountability and responsibilities for each department/leadership position, apart from the board?
05. Committee authorities and responsibilities: What are the committees' authorities and responsibilities?
06. Talent performance management and incentives: What are the group-wide talent performance management and incentives management guidelines?
07. Business and operating principles: What guidelines address inter-subsidiary transactions and the business scope/expansion of subsidiaries?
08. Leadership and talent development programmes: What are the group-wide leadership and talent development programme guidelines?
09. Policies and procedures: How should parent and subsidiaries manage policies and procedures, including archiving, reviewing, and approving guidelines?
10. Corporate support functions: How should parent and subsidiaries manage corporate support functions, such as leasing?
11. Technology and data: How should parent and subsidiaries manage technology and data, including where it should be managed and what resources should be deployed?

By aligning these operating model components with the unique characteristics and strategic imperatives of each model, conglomerates of the real estate industry can effectively optimise their subsidiary management approach to maximise value creation and competitive advantage in today's dynamic business environment.

4 common subsidiary models for large real estate conglomerates

	a **Financial**	b **Steering**	c **Managerial**	d **Operational**
Situation	• Subsidiaries exceed expectations and have demonstrated effective business performance delivery capabilities	• Subsidiaries meet expectations and are categorized as Transformational businesses	• Subsidiaries meet expectations and are categorized as Core or Adjacent businesses	• Subsidiaries do not meet expectations and have demonstrated ineffective business performance delivery capabilities
Role of Parent Entity	**From Financial to Operational, the parent company gets more and more involved in managing subsidiaries' operations**			
Key Considerations	• **Parent company sets ROI targets and strictly monitors the process** • No/little shared services provided	• **Parent company ensures strategic alignment** • **Selected shared service at parent company**, e.g., Strategic planning	• **Parent company offers a number of shared services,** e.g. HR, Finance, IT, etc.	• **Parent company directly manages subsidiaries**

Large real estate conglomerates often classify their subsidiaries into four common models, each varying in the degree of involvement from the global enterprises:

01. Financial:

- Situation: Subsidiaries exceed expectations and demonstrate effective business performance delivery capabilities.
- Key considerations: Parent company sets ROI targets and closely monitors the KPI, with minimal shared services provided.

02. Steering:

- Situation: Subsidiaries meet expectations and are categorised as Transformational businesses.
- Key considerations: Parent company ensures strategic alignment, with selected shared services at the parent company, such as strategic planning.

03. Managerial:

- Situation: Subsidiaries meet expectations and are categorised as Core or Adjacent businesses.
- Key considerations: Parent company offers various shared services, such as Human Resources, Finance, and IT.

04. Operational:

- Situation: Subsidiaries do not meet expectations and demonstrate ineffective business performance delivery capabilities.
- Key consideration: Parent company directly manages the subsidiaries.

By categorising subsidiaries into these models, real estate conglomerates can tailor their management approach according to the specific roles and responsibilities of each subsidiary. This allows for effective coordination, resource allocation, and strategic alignment across the entire organisation, while also accommodating varying levels of autonomy and involvement from the parent companies.

Supporting initiatives for sustained success in subsidiary management

1 **Assess**

2 **Regroup**

3 **Investigate**

4 **Strategise**

5 **Execute**

A. Enhance the central budgeting process

i. Annual strategic planning is carried out to set the strategic targets for all subsidiaries
ii. The process involves multiple rounds of top-down and bottom-up iterations
iii. P&L, balance sheet and cash flow statements are forecasted and updated on a rolling basis
iv. Central investment plan is developed to set the target areas and allowances for each subsidiary

B. Establish centralized PMO office

i. Run the central budgeting process
ii. Coordinate key initiatives related to performance review, synergy management
iii. Coordinate key resource movements

C. Refresh KPI Management process

i. Performance reviews is being conducted every 6 months with results recorded and published
ii. Each subsidiary is ranked on a yearly basis to determine which group it belongs to and the corresponding management inputs from the parent company

For sustained success over the long term, three supporting initiatives are critical:

01. Enhance central budgeting process:

- Annual strategic planning sets strategic targets for all subsidiaries
- Multiple rounds of top-down and bottom-up iterations to be conducted
- P&L, balance sheet, and cash flow statements to be forecasted and updated on a rolling basis
- Central investment plan to be developed to allocate target areas and allowances for each subsidiary

02. Establish a centralised PMO office:

- Run the central budgeting process
- Coordinate key initiatives related to performance review and synergy management
- Coordinate key resource movements

03. 3. Enhance KPI management process:

- Conduct performa nce reviews regularly, e.g. every quarter or every 6 months
- Subsidiaries are ranked yearly to determine the model affiliation and corresponding management inputs from the parent company

Case study: How a regional multibillion dollar private conglomerate used the ARISE framework

The enterprise's key subsidiaries were classified into three groups: Core, Adjacent, and Transformational, based on their alignment with the core real estate development business and expected synergies.

Selected key subsidiaries:

- Core: business comprises subsidiaries that operate within the pillar real estate development business line.
- Adjacent: subsidiaries in industries that are closely related to real estate development and where synergies could be generated continually.
- Transformational: subsidiaries in businesses which are distinctively different from the core real estate development business or not part of the value chain, where minimal synergy is anticipated or could be created with other subsidiaries.

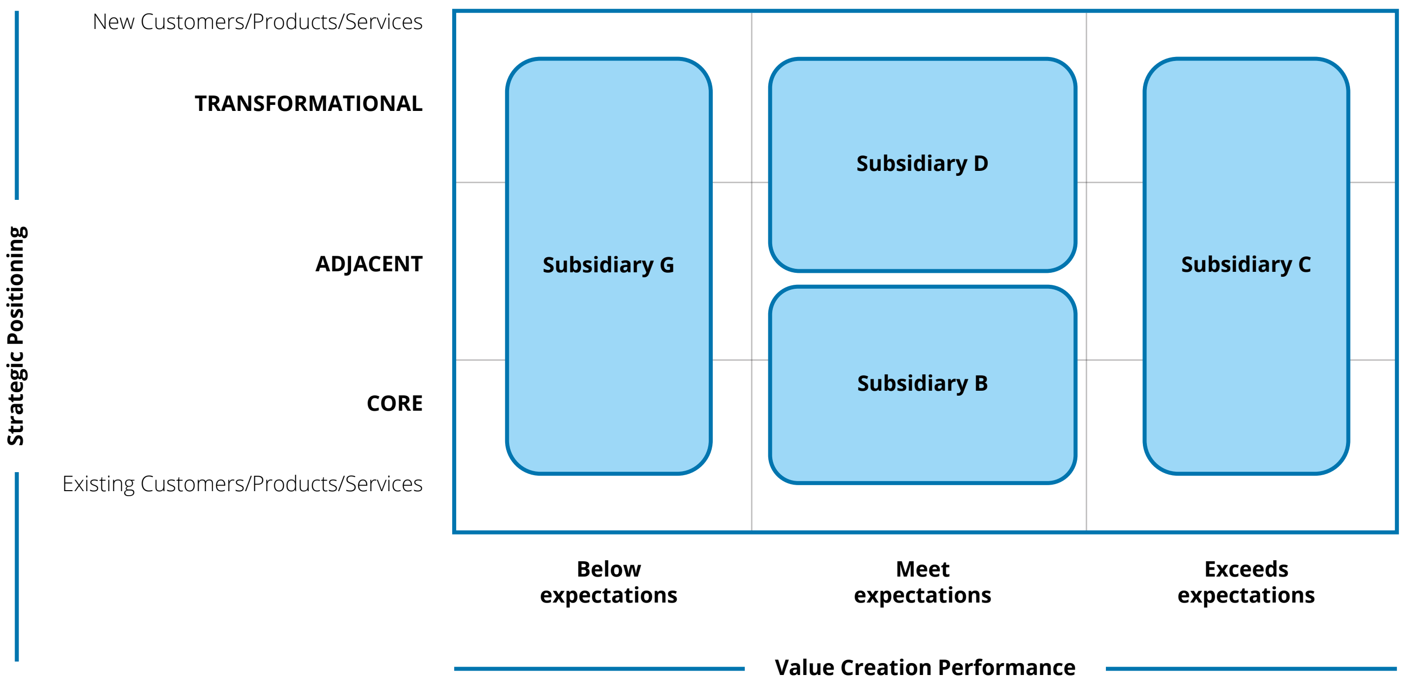
The real estate conglomerate faced several challenges, including ensuring strategic alignment in investments, managing business performance to meet individual and aggregated KPIs, optimising resource utilisation, and centrally planning and managing both financial and non-financial synergies across subsidiaries.

Key challenges faced by the Group:

1. How to ensure investments are aligned to strategic directions: to continuously monitor investments to ensure alignment with the group's strategy.
2. How to monitor and improve business performances of subsidiaries: to manage subsidiary performances to ensure individual KPIs are met, thereby meeting group level KPIs.
3. How to improve resource utilisation and allocation among subsidiaries: to ensure resources (e.g., finance, HR, assets) are utilised according to group priorities.
4. How to maximise synergies among subsidiaries: to centrally plan and manage both financial and non-financial synergies.

Regrouped subsidiaries into 4 models

These categories were devised around strategic positioning and value creation performance. By reorganising subsidiaries based on these criteria, the conglomerate gained valuable insights into the strengths and weaknesses of each subsidiary. This enabled targeted interventions and strategic realignment efforts to maximise overall organisational performance and competitiveness.



Detailed governance operating model

11 governance operating model components were explored for each of the 4 subsidiary models:
This enabled the conglomerate to address multiple use case questions, such as:

- Should the subsidiary have its own Audit committee?
- Does the subsidiary require approval from the parent company to hire a new CEO?
- How can synergies be created for leadership development and talent programs across subsidiaries?
- How can subsidiaries leverage the parent company's existing assets, such as office buildings?

Three guiding questions for the exemplary risk management use case

- Where is the location of the Risk Committee?
- How will the approval process work?
- What will be the resource allocation? E.g. if the resources are located at the parent, subsidiary levels or resources are present both at the parent and the subsidiary level

Three guiding questions to drive strategy and execution – using the risk management use case as an example:

3 guiding questions to drive strategy & execution	C **Subsidiary C**	D **Subsidiary D**	B **Subsidiary B**	G **Subsidiary G**
i. Where is the location of the risk committee?	Within Subsidiary C	Within Subsidiary D	Shared by the Risk Committee at the parent company	Shared by the Risk Committee at the parent company
ii. How will the approval process work?	Completed within Subsidiary C	Completed within Subsidiary D	Completed at parent company as Risk Committee resides at parent company	Completed at parent company as Risk Committee resides at parent company
iii. What will be the resource allocation?	Dedicated Risk Committee personnel	Dedicated Risk Committee personnel	Shared by the Risk Committee at the parent company	Shared by the Risk Committee at the parent company

01. Financial – Subsidiary C

- Where is the location of the Risk Committee?
  – Within Subsidiary C
- How will the approval process work?
  – Completed within Subsidiary C
- What will be the resource allocation?
  – Dedicated Risk Committee personnel at the Property management subsidiary

02. Steering – Subsidiary D

- Where is the location of the risk committee?
  – Within the Subsidiary D
- How will the approval process work?
  – Completed within Subsidiary D
- What will be the resource allocation?
  – Dedicated Risk Committee personnel at the subsidiaries

03. Managerial – Subsidiary B

- Where is the location of the risk committee?
  – Risk Committee is located at the parent company and shared with the Subsidiary B
- How will the approval process work?
  – Completed at parent company as Risk Committee resides at parent company
- What will be the resource allocation?
  – Resources are within the Risk Committee at the parent company and the Subsidiary B has no such resources allocated

04. Operational – Subsidiary G

- Where is the location of the risk committee?
  – Risk committee is located at the parent company
- How will the approval process work?
  – Completed at parent company as Risk Committee resides at parent company
- What will be the resource allocation?
  – Resources are within the Risk Committee at the parent company and Subsidiary G has no such resources allocated

Conclusion

In conclusion, as the real estate industry undergoes significant transformations driven by evolving market dynamics, it is increasingly important for real estate conglomerates to strike a balance in their engagement with subsidiary operations. The ARISE framework presents a holistic approach to subsidiary management, offering a structured way to align goals, allocate resources efficiently, and encourage collaborations across a diverse business portfolio. By categorising subsidiaries into strategic models and addressing differentiated operational challenges through guided governance decisions, Southeast Asian real estate conglomerates can continually optimise their performances, ultimately driving long-term organisational success in today's dynamic business landscape.

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