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Corporate Real Estate Asset Management: Aligned Vision

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Abstract

Purpose: This paper aims to evaluate the relationship between corporate strategy and CRE strategy.

Design/methodology/approach: The paper will identify, and evaluate, a number of components that collectively form the CRE strategy. Linkages between the business environment, the aims and objectives of the organisation and the real estate solution will be explored.

Findings: The paper will illustrate the alignment of the CRE strategy to the corporate strategy through the development of a CRE alignment model. The model will demonstrate that only when optimum alignment is achieved can the CRE strategy deliver added value and enhanced organisational performance.

Practical Implications: CRE managers can use the model to evaluate the alignment of their CRE strategy with their corporate strategy.

Originality/Value: The paper fills a void by proposing a framework that seeks to identify the true impact of real estate to business by examining the benefits of optimal alignment among various components including: between, planet, position, purpose, place, paradigm, processes and people to produce performance and productivity.

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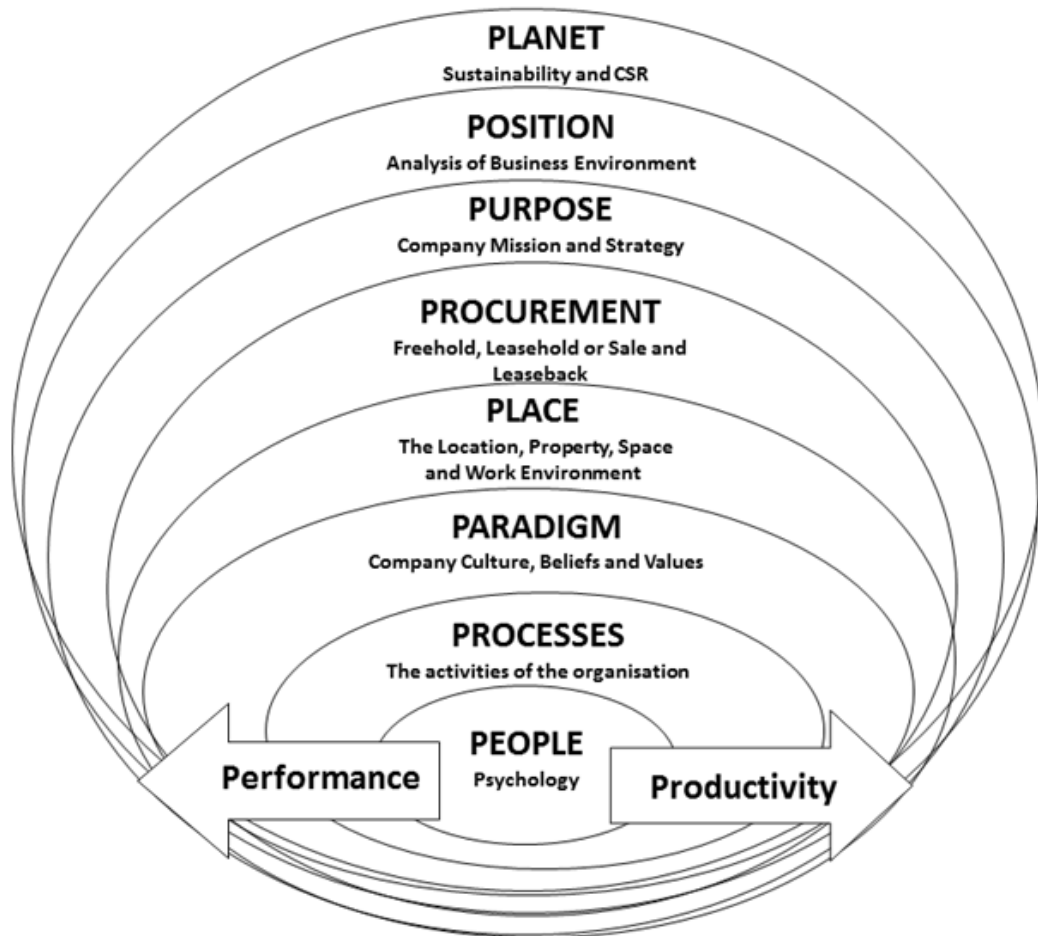
Introduction

Over the last 20 years there has been a clear development, both in academic and professional terms, in Corporate Real Estate Management (CREM). CREM has developed into a strategic management discipline that requires the same amount of attention as other strategic disciplines (Gibson and Luck 2006). The primary aim of CREM is to enhance the performance of the client organisation through the alignment of the corporate real estate (CRE) strategy with the organisational strategy (McDonagh and Nichols 2009; O'Mara 1999; Roulac 2001; Nourse and Roulac 1993; Heyward 2011; Appel-Meulenbroek et al. 2010; Scheffer, Singer and Meerwijk 2006; Singer, Bossink and Putte 2007).

Heywood (2011) reviewed the CREM literature to evaluate theoretical models that have attempted to establish the linkage between CREM and organisational strategy. Heywood (2011) makes the point that the existing approaches to CRE alignment tend to fall into one of two camps. The alignment models are either single CRE factor or are multivariate alignment models (Heyward 2011). Heywood (2011) identified 10 different alignment models which included components ranging from 7 to 15. Whilst the multivariate approach may offer a more detailed understanding of the relationship between CRE and organisational strategy it also raises a number of fundamental questions:

- What are the components of CREM?
- What would be an appropriate theoretical framework for CREM?
- And, how do these components interact in a multivariate way?

This paper aims to address the first two questions with the third question being left for future research. The proposed alignment model is contained in Figure 1. The premise of the model is that optimal alignment between organisational strategy and CRE strategy is achieved when the proposed components are all in alignment. The proposed components being planet, position, purpose, place, paradigm, processes and people to produce performance and productivity.



**Figure 1 Corporate Real Estate
Asset Management Alignment Model¹**

Each of the components will now be discussed in greater depth.

Planet

The planet component of the model relates to the alignment of CRE with issues relating to sustainability and corporate social responsibility. It appears that organisations are becoming increasingly aware of their green credentials with some organisations using this as their unique selling point. CRE can play a significant role by ensuring that buildings are designed, built and managed with energy efficiency at the centre of the decision-making process. Part of this process will be ensuring that the building has the appropriate sustainability certification such as; BREEAM, LEED, CASBEE and Green Star.

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Cornet Global has undertaken a number of research initiatives relating to the trends in CRE. The aim of this research is to establish the demands for CRE in 2020. Part of this initiative was a piece of research which investigated the trends in sustainability and their potential impact on future CRE provision. The research team propose six major findings which include (Shen, Ng and Varcoe 2012):

- A trend towards increased transparency of energy use and carbon footprint which will be driven by regulatory initiatives. The initiatives that acknowledge energy efficiency and penalise inefficient energy usage will be increasingly more important by 2020.
- Buildings will not only be consumers of energy but also producers of energy through the use of technologies such as solar energy and wind generated energy.
- Real estate strategy will be influenced by access to reliable and renewable energy, potable water and waste distribution.
- Technology will enable greater monitoring and control of energy efficiency of buildings. In addition, it will provide office occupiers the opportunity to work more flexibly, thereby reducing the requirement for the daily commute and also the need for corporate travel.
- 74% of respondents to the Cornet global 2020 survey reported that initiatives undertaken by CRE managers can positively change personal behaviour and standards of employees regarding sustainability.
- There will be an increasing trend towards a higher level of in-house sustainability expertise.

Position

The position component helps to set the context in which any CRE decisions have to be made. This is achieved by establishing an understanding of the “*drivers for change*” that are taking place in the business environment. In addition, this component can also relate to the position of the organisation in the business cycle. An expanding organisation has different requirements to an organisation that is restructuring or contracting.

Business environments are becoming more complex, with companies wanting to respond more quickly, and even globally, to changing market conditions. Set against the changing business environment, establishing CRE requirements has become a more complex task. It is therefore important that CRE managers and consultants understand, and can apply, a range of environmental scanning techniques such as PEST and SWOT analysis. Even innovative techniques such as Scenario Planning techniques have a role to play in strategic real estate management (Haynes and Nunnington 2010).

Purpose

The purpose component adds to the position component in that the CRE manager needs to understand the organisation's response to the changing business environment through establishing the business aims and objectives. This includes the company mission or vision statement and aims to establish the future direction of the business.

Research undertaken by Lindholm et al (2006) proposed that overall corporate strategy could be one of two options, revenue growth or profitability growth. This would lead to 7 possible real estate strategies which include:

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1. increased value of assets
2. promote marketing and sales
3. increase innovations
4. increase employee satisfaction
5. increase productivity
6. increase flexibility
7. reduce costs

A number of authors have proposed CRE alignment models (Appel-Meulenbroek et al. 2010). Eight such models are evaluated by Appel-Meulenbroek et al (2010). Within their review a number of authors adopted 9 corporate strategies proposed by Tregoe and Zimmerman (1980). These are (Tregoe and Zimmerman 1980):

1. products offered
2. market needs
3. technology
4. production capacity
5. method of sale
6. method of distribution
7. natural resource
8. size/growth
9. return/profit

Appel-Meulenbroek et al (2010) aimed to evaluate strategic alignment of corporate real estate in the care sector in the Netherlands by interviewing 20 experts. The interviews revealed that two of the driving forces identified by Tregoe and Zimmerman (1980) were not appropriate for the care sector, those being: “method of distribution” and “natural resources”. The experts interviewed also identified an extra real estate strategy appropriate for the Dutch care sector called “increase clients satisfaction”. The extra strategy was in addition to the 7 proposed by Lindholm et al (2006). Appel-Meulenbroek et al (2010) calls for further research having identified that it is hard to find a definite alignment mechanism as ultimately the alignment evaluation will be based on expert knowledge which is not always available in a CREM Department (Appel-Meulenbroek et al. 2010).

Procurement

The decisions involved in deciding the route to CRE procurement have become more complex given the changing business environment. The procurement option chosen by the CRE manager is a pivotal decision that will determine the success of the CRE strategy. This is brought into sharp focus by the demands of an organisation for flexibility and adaptability whilst at the same time the CRE manager has to deal with lead times for acquisition and disposal of real estate. Given these constraints it is understandable that the CRE manager may consider leasing rather than owning CRE.

This view is supported by a piece of research that evaluates UK quoted companies over a period between 1989 and 2002 and which identified a trend in high-growth and large companies towards leasing rather than owning freehold real estate (Lasfer 2007). However, the research also identified, through the Donaldson's-Lasfer's curve, an optimum relationship between a firm's value and the leasing propensity. An optimum balance between freehold and leasehold ownership can be obtained. The optimum level for freehold is 35% and for leasing is 65% (Lasfer 2007).

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Whilst the financial element of the lease versus buy (LVB) decision is an important component, it is not the only one. Barkham & Park (2011) evaluate empirical research obtained in 1998 from 2,248 UK firms regarding their LVB decisions. Their research proposes the need for a wider framework to fully evaluate LVB decisions (Barkham and Park 2011). This framework should not only include finance, but also include corporate strategy, locational analysis, and real estate economics. It is acknowledged that the dataset on which this research is based is dated, but it still develops our appreciation of CRE and establishes the need for understanding the interrelationship between corporate strategy (purpose), the LVB decision (procurement), and the location of the property (place).

Place

In the context of CRE the place component can relate to macro decision-making factors such as which country and which city the corporate head office should be located in. It can also relate to the micro decision-making factors such as the specifications of the building and the layout required in the office environment.

The European cities monitor, produced by Cushman and Wakefield, is a survey that has been produced since 1990 (McCarthy 2011). The survey identifies the perceptions that corporations have about cities across Europe. The findings in the survey allow corporations to evaluate the relative attractiveness of the different European cities. The survey is obtained from 501 European companies and obtains senior executives' views on Europe's leading business cities. This survey is useful as it identifies the factors which companies believe are the most important when considering locating their businesses. The 2011 survey identified the most important factor to be easy access to markets, customers or clients (60%) (McCarthy 2011). This was followed by availability of qualified staff (53%). Value for money of office space appeared fifth on the list of important factors with a response rate of 33%. This indicates that whilst companies are conscious of costs it is more important to locate nearer to their customers.

Once a country and a city have been located the next challenge facing the CRE manager is to identify a building with specifications that match their organisational needs. However, clearly identified assessment criteria need to be established against which the CRE manager can evaluate potential locations and buildings (Nunnington and Haynes 2011). This is a complex decision-making process that requires objectivity and transparency. It also requires strategic emphasis on business requirements and not just obtaining the best real estate deal (Nunnington and Haynes 2011).

Paradigm

The CRE manager needs to establish how an organisation actually works and understand the beliefs and values espoused by the client organisation so that the real estate and workplace solutions can support and enhance the culture of the organisation or "*organisational DNA*". It is also important to establish micro cultures, the way that people actually work in the office environment; this could be considered to be the "*workplace DNA*".

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The brand of an organisation is more than the marketing materials and the company logo; it has to reflect the whole ethos of the organisation. It is the ethos, or brand identity, that helps an organisation differentiate itself in the market place (Haynes and Nunnington 2010).

An organisation can use its real estate and facilities to communicate clearly to employees and customers its brand identity. The location of an organisation's buildings, their external and internal design and appearance all send signals about the company culture and brand (Haynes and Nunnington 2010).

A successful brand will be fully integrated into the business: it will reflect the culture of the workplace, the values of the organisation, the perceptions of customers and clients, even the nature of the business's assets (McNestrie 2009).

Branding is strongly associated with the consumer and retail sector. However, it can perform just as important a role in office working environments. The branding of office environments can clearly reflect the culture of an organisation, or corporate DNA. If the real estate and facilities professionals are not consciously managing the brand of a company, then by default they may be sending negative signals to their customers and employees (Haynes and Nunnington 2010).

Processes

The CRE manager has to have a clear understanding of the work processes undertaken in the organisation if they are to ensure that the building provision, and specification, matches the organisational demand for space.

Research undertaken by Greene and Myerson (2011) aimed to establish different classifications of knowledge workers based on their mobility patterns. This research was novel in a sense that along with interviews and ethnographic studies the research used a drawing exercise in the interview process as a way of graphically capturing the interviewees' perception of their office mobility. This research identified four character types for knowledge workers. The anchor and the connector were mainly confined to the office environment whilst the gatherer and navigator were more mobile and had the freedom to roam away from the office environment (Greene and Myerson 2011). Clearly establishing the needs of office-based occupiers and mobile workers is an essential element in identifying the office space requirements.

The matching of processes to place is a fundamental one, and is developed even further by research undertaken by Duffy et al (2011) who argue that context and purpose should also be taken into account. This research argues that the creative processes of discovery, sharing and pushing knowledge forward should not be restricted by predetermined physical workspaces (Duffy, Craig and Gillan 2011). This call for a more adaptive approach to workplaces requires the CRE manager to apply more social science research skills to understanding the needs and preferences of the office occupiers.

People

Increasingly, the CRE manager has to identify the needs and preferences of office workers (Rothe et al. 2011; Joy and Haynes 2011; Haynes 2011). To really understand office occupiers' needs the CRE manager has to establish not only the work process requirements, as previously described, but also the psychological needs of office occupiers (Oseland 2009). This adds another layer of complexity to establishing workplace requirements but is essential if the office environment is to support the needs of the individual as well as the needs of the organisation.

A review of the main psychological theories and their impact on the design and management of office environments is presented by Oseland (2009). This review argues that effective use of space is achieved by placing individual needs, as well as organisational needs, at the centre of office design. An overview of the key theories identified by Oseland (2009) is below:

- *Locus of control*: This relates to an individual's perceptions of how events are controlled (Rotter 1966). People who have "internal" locus of control believe that it is their own decisions that determine their own fate. In contrast people who have "external" locus of control believe that events are determined by an external force. Oseland (2009) proposes that internals are more likely to adapt to flexible working, whereas externals may require more supervision and therefore may be more suited to open plan environments
- *Space territory and privacy*: Oseland (2009) uses Hall's (1963) Proxemic Framework to illustrate people's preferred distances when interacting in the office environment. Oseland (2009) argues that smaller desk allocations such as touchdown desks may actually impact on individuals' personal space leading to a feeling of intrusion.
- *Social group*: Oseland (2009) applies the research of Robin Dunbar to the office environment and concludes that office environments that have floor plates that accommodate staff of more than 150 can potentially be overwhelming to the office occupiers. The "Dunbar number" states that people are comfortable with a social group of around 150 members (Dunbar 1993).

Productivity

Designing productive working environments requires the integration of the components previously discussed in this paper. It is only when all the components are in alignment that the workplace can be productive on an individual and an organisational basis. Therefore, workplace alignment means that the workplace supports the organisational purpose and culture, in addition to the work processes and individual needs and preferences of the office occupiers.

To ensure that a best match between office occupiers and their office environment is achieved, there needs to be an alignment of both the physical environment and the behavioural environment (Haynes 2008a; Haynes 2008b). The physical environment relates to the office layout and how comfortable office occupiers feel in the office environment. Office layout relates to such things as size and positioning of desks and the location of printers, photocopiers etc., whilst office comfort relates to such things as ventilation, heating, lighting etc. The behavioural environment relates to the way that people interact in the office environment. This can be through interactions and

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distractions (Haynes 2008a; Haynes 2008b). Whilst the physical environment is still an essential component of office design, it has been identified that it is the behavioural environment, more than the physical environment, that has the most impact on people's perceived productivity (Haynes 2008a; Haynes 2008b).

Performance

The demands on the CRE manager require both efficient and effective CRE provision. Efficiency can be demonstrated by cost reduction and is typified by efficiency measures such as cost/m². Effectiveness can be demonstrated by how well the CRE department adds value to the organisation. This could take the form of hybrid metrics such as revenue/m² or profit/m². There is a need for performance metrics that demonstrate effectiveness as well as efficiency.

One approach to broadening the performance metrics of CRE would be to use the balanced scorecard (Kaplan and Norton 1996). Lindholm and Nenonen (2006) interviewed 26 CRE executives to establish a conceptual framework for CRE measurement (Lindholm and Nenonen 2006). They state that the balanced scorecard approach can be adopted for CRE and propose metrics for the four components of the balanced scorecard. The four components are:

- the financial perspective
- the business process perspective
- the learning and growth perspectives
- the customer perspective

The debate for new corporate real estate metrics is broadened by Barnes et al (2011) who propose the need for metrics to be linked to corporate social responsibility (CSR). They acknowledge that there has been growth in mobility/alternative work patterns, but suggest that the linkages between mobility and CSR have not fully been established. Therefore, three components that link mobility to CSR are proposed (Barnes, Roose and Perske 2011).

- Employee transport. This relates to an employee's commute to work and any commutes between facilities in the company.
- Health/well-being. This relates to an employee's ability to establish a work life balance. Allowing employees the flexibility of mobile working means that they can reduce their commute time thereby reducing stress.
- Community involvement. Adopting alternative workplace strategies means that employees are saving commuting time which they could use on social projects.

A case study with six English fire and rescue services (FRS) developed a performance framework for measuring real estate performance for multiple building types (Eckley and Hedley 2011). They developed a performance scorecard based on IPD occupiers' three pillars of performance which are efficiency, effectiveness and sustainability. Each pillar of the performance scorecard contained three levels of measurement. This allowed KPI's to be operationalised into specific metrics of measurement. The findings of the case study indicate that UK FRS could save at least £30m (\$47 million) per year (Eckley and Hedley 2011).

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There is a trend to move to measures that integrate the real estate performance metrics with the business performance metrics. This contemporary approach allows the real estate professionals to report back to the organisation the real estate performance in terms that the business can understand. Adopting this strategic approach to real estate performance measurement means that real estate professionals can constantly evaluate their real estate provision with a view to establishing how well it supports the organisational need.

Conclusions

This paper has argued the need for a theoretical framework that underpins the relationship between corporate strategy and CRE strategy. The paper proposes a number of components that could be included in the theoretical framework. The theoretical framework proposes that optimum alignment can only be achieved when all the components in the framework are in alignment. Optimum alignment is required between, planet, position, purpose, place, paradigm, processes and people. It is at this optimum point that the CRE strategy delivers added value to the business through enhanced occupier productivity and organisational performance.

To develop this area of research further certain steps need to be followed including:

- Establish if the proposed theoretical framework includes all relevant components. Since the proposed theoretical framework is at the early stages of conceptual development it is important to test out the proposed components with corporate real estate professionals. The aim would be to seek validation of the proposed components but also to identify any components that are not currently included in the proposed theoretical framework. It is intended that this stage of the research process would be best served by interviewing corporate real estate professionals.
- Ensure that each conceptual component can be operationalised so that measurement and evaluation can be undertaken. Turning conceptual components into clear performance metrics will require a detailed investigation into how CRE managers actually measure the performance of their CRE strategy. This stage of the research process will require an in-depth understanding that can only be achieved by case study evaluation. Therefore, it is envisaged that a number of case studies will be identified with the aim of establishing their key CRE performance metrics. The evaluation of the case studies will seek to establish CRE performance metrics that can be considered to be common across the case studies, but will also establish CRE performance metrics that may be unique to each individual case study.
- Establish the linkages between components so that a true multivariate framework can be developed. This stage of the research process will seek to establish statistical relationships between the conceptual components that have been identified and validated in the previous research processes. It is therefore intended that a large scale survey will be undertaken aimed at CRE professionals. It is envisaged that this type of large scale data collection, and subsequent statistical analysis, will lead to a deeper understanding of the multivariate nature of the theoretical framework.

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ⁱ Asset management has been included in the title in an attempt to illustrate real estate as an organisational asset and not just a liability. By shifting the emphasis to real estate as an asset then the dialogue and communication with an organisation can relate to asset maximisation. This approach acknowledges that real estate is an asset in a financial sense, included on the balance sheet, whilst also an asset in an operational sense and can lead to organisational performance (Haynes and Nunnington 2010).