A Review on Indicators of Corporate Real Estate Strategies for Hotel Industry in Sri Lanka

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Abstract

Corporate strategy is a set of a unique programme designed to achieve specific objectives of the organization. It describes the philosophy of the business which executed at departmental level through a functional and tactical plan of the organization. Many organizations focused on production, marketing, finance and human resources as important functional level priorities and marginal emphasis was given for Corporate Real Estate (CRE); the real estate portfolio of a non-real estate organization. However, organizations are required to strategically manage its CRE to unleash the potentiality of CRE because real estate is a primary factor of production. The outcome of the effective and efficient implementation of the tactical real estate plan is the successful attainment of organization's objectives. An effective strategic management of its CRE is a requirement of the hotel industry; a subset of travel and tourism industry of Sri Lanka to add value to successful attainment of hotel's objectives. Therefore effective application of CRE strategies at the operational level is vital. Since, industry specific tactical level indicators of CRE strategies are not reviewed at the national context, this study focused to identify tactical level CRE strategic indicators of the hotel industry in Sri Lanka. Total of 38 respondents participated in the expert review session that comprised with academic, senior managers of hotels, management of the regulatory body of tourism in Sri Lanka and industry veterans. The Analytic Hierarchy Process (AHP) used as the methodology of the study to review expert opinion on indicators of CRE strategies of the hotel industry in Sri Lanka. The expert panel prioritized 27 CRE strategic indicators of the hotel industry in Sri Lanka. The finding contributes CRE literature of hotel industry in Sri Lanka and the study recommends empirical validation of identified CRE strategic indicators to test the impact of each indicator on CRE strategy in the hotel industry in Sri Lanka.

Keywords: *Corporate Real Estate, Strategy, Indicators, Hotel Industry*

Introduction

Corporate Real Estate (CRE), the real estate of non-real estate companies is an important strategic resource of a hotel to successfully offer its products and services in a competitive way to its existing and potential customers. According to the Hiang Liow and Ooi, (2004) CRE is a strategic resource which includes operational and investment real estate of the business organization. Apgar (1995) identified CRE as the fifth resource of the organization after the capital, people, technology, and information. The economic classification on factors of production identifies land (literary real estate of a commercial business) as the first input with labor, capital, and entrepreneurship and represents a significant percentage of the total assets of any organization. On account of this, CRE becomes an important strategic resource and requires strategic attainment to unleash its competitive advantage.

A business strategy is a unique programme designed by the senior management of the organization to accomplish overall objectives of the organization. The effective and efficient use of limited resources and the successful attainment of business objectives is an outcome of the efficacious implementation of business strategy. In general, the strategy classifies into three tiers as corporate, functional and tactical level. The corporate strategy ensures the strategic direction of the organization and focused on organization's vision and mission. With reference to this, the corporate strategy becomes an umbrella strategy covers every corner of the organization. The departmental level strategies are contributors of the value chain of the organization by ensuring strategic attainment of business process activities. The tactical level plans deployed at the divisional and/or sectional level to effective and efficient implementation of departmental strategies. The strategy of the organization showcases ways and means to achieve organization's objectives within the dynamic business environment while in line with the vision, mission of the organization. According to the Kay, (2000) the organization strategy earmark the firm's marketplace within its competitors, depict milestones, pinpoint the strategic direction and portrait future of the organization (Prahalad and Ramaswamy, 2000). Thus strategy craft competitive battleground for organization setting. Despite this, organizations must accept changes of the business environment and ready to outperform and benchmark the best practices in the industry (Porter, 2002).

The statistics of World Travel and Tourism Council, (2016), confirmed that Travel and Tourism industry is one of the leading contributors to Sri Lankan GDP with a total of LKR 1,107.1 bn or 10.6 per cent of GDP in the year 2015. According to the statistics, during the period of 2010-2015, the industry showed the rapid growth of 19.8 per cent which overruled the world tourism growth of 4.7 per cent. The conclusion of country's 30-year long war in 2009 and accelerated infrastructure development during the period are major contributors to this growth. The hotel industry, a subset of the Travel and Tourism industry had a positive impact on this growth and portrait with an increase total number of hotels and rooms up to 354 and 19,376 respectively at the end of 2015 from 253 hotels and 14,714 rooms in 2010. The significant increase in a number of rooms and related facilities are contributors of holding a substantial amount of CRE by a hotel. Thus effective and efficient management of CRE become an integral functional requirement to add value to the performance of the hotel. This alarmed senior management of hotels to investigate, analyze, and identify how CRE strategies are used to add value to the overall strategic plan of the hotels.

CRE strategy is an integral part of the corporate strategy of the organization which crafted by the line manager of the CRE division focusing strategic plan of the organization. Thomas (1978) confirmed that application of strategy is different in service sector compared to manufacturing sector mainly due to nature of the service product. Further it is noted that researchers in the corporate real estate sector focused only corporate real estate issues and continuously ignore strategic link of corporate real estate and the business strategy. This leads corporate real estate to become isolated functional area of many non real estate organizations and disconnected from the boardroom discussion of CRE at senior management and board of directors meetings.

According to Nourse and Roulac, (1993); Lindholm, (2008) strategic link of CRE strategies and business strategy is a prerequisite for successful implementation of functional strategies of an organization. The characteristics of CRE within the context of a hotel namely; (a) functional nature of the real estate, (b) land as a factor of production (technically land is a CRE in the context of organization) and (c) the dual decision structure by real estate manager of the organization and the respective functional manager are key points which strengthen the scholars' argument. On account of this, the effective and efficient use of CRE strategy of an organization becomes a requirement for successful implementation of other functional strategies of the hotel. Therefore, CRE strategy should have hand in hand relationship between other functional strategies as well as corporate strategy of the organization. This confirmed that CRE strategy become an adopted strategy as per the nature of the organization and industry (Oladokun and Aluko, 2016).

The tactical level of CRE strategy has nurtured by industry specific characteristics where the nature of business and culture make an impact on strategic practices of CRE. For that reason, nature of the industry, customary practices, the amount of CRE holding in production and service delivery are operational key success factors or key result areas which influence the application of CRE strategies at the tactical level of the hotel. On account of this, the CRE indicators, a measurable variable used as representations of an associated factor or quantities of CRE strategies of the hotel industry are exactly not same as with other industries. As a result, reviews of indicators of CRE strategies are important to successful implementation of CRE strategies in the hotel industry.

A study of Kaluthanthri and Osmadi (2016), classified CRE strategies of hotel industry into two categories as Contributors of Cost Reduction and Contributors of Revenue and introduced seven CRE strategies based on the expert review which founded upon three main strategic CRE reviews by Nourse and Roulac (1993), Lindholm and Leväinen (2006), and De Jonge, (1996). Accordingly, the study argued senior management of the hotel industry need to operationalize seven strategies in the context of hotel environment to maximize the operational efficiencies of identified CRE strategies of the hotel. On account of this, senior management of the hotel needs to exercise dynamic CRE operational indicators to operationalize identified CRE strategies at the tactical level. However, it is noted that there is no review on operational indicators of CRE strategies of the hotel industry in Sri Lanka and no documentations on indicators of CRE strategies. That being so, the study aims to review expert opinion on operational indicators of CRE strategies of the hotel industry in Sri Lanka. The experts of industry namely; senior management, and researchers of hotel and leisure industry are contributors to review these operational indicators of CRE strategies of the hotel industry in Sri Lanka. The results of the study add to the empirical literature of strategies CRE in the context of hotel industry with meaningful insights.

The structure of the study articulated in three major sections with (a) literature review on CRE strategies, and indicators (b), methodology, (c) analysis and finally the (d) conclusion, which explain the outcome of the study.

Literature review

The literature review on CRE strategies broadly focused on three main scholarly discussions, namely; *Alternative Real Estate Strategies (ARES)* of Nourse and Roulac (1993), *Elements of Added Value* of De Jonge (1996) and *Model for Identifying the Added Value of Corporate Real Estate Management* of Lindholm and Leväinen (2006). The review of three strategic discussions of above scholarly works summarized by Kaluthanthri and Osmadi (2016) into two main categories namely (a) Contributors of Revenue and (b) Contributors of Cost Reduction and seven strategies were identified. Refer table 01 for details

Table 1: Value Added Strategies of Corporate Real Estate

Category	Proposed Category	Nourse and Roulac (1993)	Lindholm and Leväinen (2006)	De Jonge, (1996)
Contributors of Cost Reduction	Reduce CRE Cost	Occupancy cost minimization	Reduce cost	Cost reduction
	Increasing Productivity	Facilitate and control Production Operation and Service Delivery	Increase Productivity	Increasing Productivity
	Increase Flexibility	Flexibility	Increase Flexibility	Increase of Flexibility
Contributors of Revenue	Increase HR Satisfaction	Promote Human Resource Objectives	Increase Employee Satisfaction	-----
	Promote Marketing and Sales	Promote Sales and Selling Process Promote Marketing Message	Promote Marketing and Sales	PR and marketing
	Facilitate Managerial and Knowledge Process	Facilitate Managerial Process and Knowledge Work	Increase Innovation	Changing the culture
	Increase Value of the Assets	Capture Real Estate Value Creation of Business	Increase value of the Assets	Increase of value
	---	---	---	Risk control

Defined by author based on Nourse and Roulac (1993) , Lindholm and Leväinen (2006), De Jonge, (1996)
* The value adding element "Risk control" ignored since the indicators of that element already included in other strategies in the summary table

The indicators of CRE strategies identified as measurable variable used to represent association which adds value to hotel through operationalization of CRE strategies. The study systematically scrutinizes the literature to summarize best possible indicators of CRE strategy which become a guiding tool for expert review of the study.

The review on indicators of *Alternative Real Estate Strategies (ARES)* of Nourse and Roulac (1993), *Elements of Added Value* of De Jonge (1996) and *Model for Identifying the Added Value of Corporate Real Estate Management* of Lindholm and Leväinen (2006) led to identification of 27 common indicators which can be listed under the seven CRE strategies. Theoretically summarized indicators for the study shown in table 02

Table 02: Indicators of Value Added Strategies of Corporate Real Estate

CRE Strategy	Indicator
Reduce Cost	Minimize operational expenses
	More efficient use of work space
	Establish workplace standards
	Minimize acquisition cost
Increase Productivity	Facilities Management for operations
	Convenient locations
	Employees preferred locations
	Service friendly designs
Increase Flexibility	Accommodate space requirement
	Ensure multiple use of space
	Create flexible work solutions
	Chose leasing instead owning
Increase HR Satisfaction	Introduce functional work place
	Provide desired amenities
	Convenient built environment
	Location convenience for employees
Promote Marketing and Sales	Invest location
	Physical institutional advertising
	Link environment with company product
	Use design and layout for branding
Facilitate Management and Knowledge Work	Design for innovation
	Users participation for design phase
	Accept business changes
Increase Value of the Assets	Timely purchase real estate
	Timely redevelop obsolete property
	Trade off on lease purchase decision
	Manage risk of property

Source: Defined by author based on Nourse and Roulac (1993), Lindholm and Leväinen (2006), De Jonge, (1996)

Methodology

The study used Analytic Hierarchy Process (AHP), a model which measure the relative importance of an element based on pairwise comparison with other. The model is suitable for a judgmental review by experts. According to Saaty (1987), the AHP comparison scale measures the absolute judgment of experts on one element compared to another element based on given criterion or attribute.

The general AHP model, represent as a hierarchy which has several levels, including the goal of the model, decision criteria, and the alternatives or elements (Saaty, 1987). The AHP hierarchy of the study designed in a way to identifies suitable indicators of CRE strategies for the hotel industry in Sri Lanka; the goal of the study. The study runs the general AHP model seven times independently to identify AHP priorities for indicators of each CRE strategy.

The hierarchy of the AHP model of the study consists of three levels as shown in figure 01. The goal of the model is the identification of AHP priorities of indicators of CRE strategy. The second level of the model portrait the five criteria used to prioritize indicators for each CRE strategy. The lowest level of the hierarchy shows alternatives indicator of the model.

Figure 01: AHP Model on Indicators of CRE Strategies for Hotel, Sri Lanka
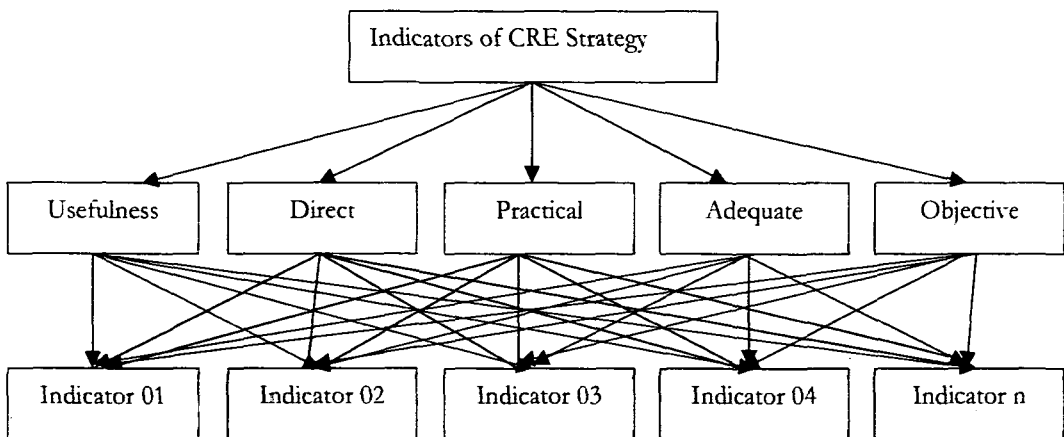
Decision Criteria

The priority order of indicators of each CRE strategy reviewed based on five criteria namely; (a) Usefulness, (b) Direct measurement, (c) Practical, (d) Adequate, and (e) Objective. The five criteria defined as follows.

Usefulness: is used to measure the ability and efficacy of the indicator to implement given CRE strategy at tactical level of the hotel. The indicator should be fit for the purpose and the results of the indicator should be useful for management of the hotel to review the successfulness of CRE strategic decision.

Direct Measurement: the indicator of the given CRE strategy should be able to clearly measure or implement intendant programe/activity of the strategy. The management of the hotel would agree that indicator is logical to use as an activity of tactical level.

Practical: the indicator should be able to apply within the context of hotel environment and able to implement without making additional cost or time.

Adequate: the indicator should be cover important aspects/dimensions of given CRE strategy.

Objective: the indicator should be clear and unambiguous about what is being explained as CRE strategy.

The pair-wise comparison of the relative important of each indicator of given CRE strategy done using 1 to 9 scale. The scale values are given in table 03.

Table 03: Pairwise Comparison Scale for AHP Preference

Numerical scale value	Definition of the scale
1	Equally preferred
2	Equally to moderately
3	Moderately preferred
4	Moderately to strongly
5	Strongly preferred
6	Strongly to very strongly
7	Very strongly preferred
8	Very strongly to extremely
9	Extremely preferred

Source: (Al-Harbi, 2001)

Sample of the study
The study defined an expert as a Sri Lankan who has an academic experience in real estate, or a person who published scientific articles based on the empirical study in a scientific journal or who has management experience in real estate decision making on hotel or attended a scholarly conference and presented findings of real estate management about the hotel industry. Thus the study ensures holistic review on indicators of CRE strategies by experts to fulfil the aims of the study. With reference to this, the total population of the study includes academics, executive staff of hotels who make real estate decisions, and members who presented real estate management findings of hotels at national or international research conferences and journals.

Total of 38 experts responded to the study with a 42.69 per cent participation ratio out of 90 experts who were selected using convenience sampling method. The characteristics of the respondents were given in table 04.

Table 04: Category of Experts

Participant Category	No of Participants
Academics	03
Senior management staff of hotels	12
Middle management staff of hotels	14
Management staff of Sri Lanka Tourist Development Authority	02
Management staff of Travel Advisory Organizations	05
Opinion Leaders	02
Total	38

Source: Field data (2016)

Analysis

The first step of the study is the pair-wise comparison of decision criteria of the AHP model. The results of the pair-wise comparison of decision criterion of the study used to synthesize final priorities of each CRE strategy to reach the goal of the AHP model. The results of the pair-wise comparison and the consistency ratio are given in given in table 5. The consistency ratio of 2.5 per cent, which is less than 10 per cent is under acceptance level as per the decision rule (Saaty, (1987).

Table 05: AHP Priority Weight of Decision Criterion

Criteria	Usefulness	Direct	Practical	Adequate	Objective	Priority Weight	Priority
Usefulness	1	1.00	0.20	2.00	0.25	0.096	4
Direct	1.00	1	0.50	2.00	0.20	0.108	3
Practical	5.00	2.00	1	4.00	0.50	0.28	2
Adequate	0.50	0.50	0.25	1	0.14	0.058	5
Objective	4.00	5.00	2.00	7.00	1	0.458	1
Sum of Priority						1.000	
Consistency Ratio						0.025	

Source: Field data (2016)

The study evaluates the priorities of indicators of each CRE strategy based on the overall priority weight of the criteria. The result of the analysis is shown in table 6 to 10. The final outcome confirms overall priorities of an individual indicator of CRE strategy of the hotel industry in Sri Lanka.

The AHP weights of indicators of "Reduce Cost Strategy" are given in table 06.

Table 06: AHP Priority Weight for Reduce Cost Strategy

Indicator	AHP Weight
Minimize operational expenses	0.681
More efficient use of work space	0.243
Establish workplace standards	0.071
Minimize acquisition cost	0.005
Sum of Priority	1.000

Source: Field data (2016)

Experts confirmed that "Minimize operational expenses" is the most important indicator or tactical activity under the "Reduce Cost" strategy followed by "More efficient use of workspace" and "Establish workplace standards" based on synthesizing final priorities according to the criteria of the model. An important consideration is that these three indicators are contributing more than 99 per cent of total weight of the AHP model. The consistency ratio of the AHP weight is 0.012 and under the acceptable level.

Table 07 showed AHP priority weight for "Increase Productivity Strategy". Experts confirmed, "Convenient locations" as the most important indicator under the "Increase Productivity" strategy. According to the priority analysis, the location becomes the primary tactic to increase the productivity of the hotel. The selection of the location is a key to increasing output of the hotel in terms of room occupancy, number guest visits, and the number of nights stay. The overall consistency ratio of 0.01 confirmed that expert view is under the acceptable level. However, the indicator on "Employee preferred locations" is given lowest priority. The study argued that hotel should focus customer location first and employees should give the lowest priority. However, this could be vice versa on a business organization like an industrial park, or back office requirement.

Table 07: AHP Priority Weight for Increase Productivity Strategy

Indicator	AHP Weight
Facilities management for operations	0.361
Convenient locations	0.423
Employees preferred locations	0.007
Service friendly designs	0.209
Sum of Priority	1.000

Source: field data (2016)

The review results on "Increase Flexibility" confirmed that experts are focused on how to ensure multiple uses of space as a tactical application of the CRE strategy. According to the results, the hotel management needs to explore the possibility of how to ensure customization of space requirement of hotel facilities such as banquet, hot desk lobby, car park etc… without making any inconvenience to day to day functions of the hotel. Further as a second most important indicator "Ensure multiple uses of space" confirmed that multipurpose or parallel use like temporary partitioning of the main ballroom for a small group meeting or supporting parallel sessions of a conference are contributors for the performance of the hotel with the condition of minimum cost to the hotel. The 0.036 consistency ratio of the review results is par with the decision rule of the Saaty (1987). Refer table 8 for details

Table 08: AHP Priority Weight for Increase Flexibility Strategy

Indicator	AHP Weight
Accommodate space requirement	0.527
Ensure multiple use of space	0.385
Create flexible work solutions	0.231
Chose leasing instead owning	0.077
Sum of Priority	1.000

Source: field data (2016)

The next reviewed CRE strategy was "Increase HR Satisfaction" with the consistency ratio of 0.079 focused on how to increase work satisfaction of employees of the hotel through built environment. According to the AHP results the "Functional workplace" is the most important indicator which is applied in organizational context through designing a standard physical working environment for employee and facilitate work environment with fixtures, fitting, and real estate services. The second heights priority was "Provide desired amenities" ensure availability of regular facilities such as sanitary, drinking water, filing systems which make pleasant and productive workplace for employees. Results of the priority order are given in table 09.

Table 09: AHP Priority Weight for Increase Satisfaction Strategy

Indicator	AHP Weight
Introduce functional work place	0.416
Provide desired amenities	0.260
Convenient built environment	0.251
Location convenience for employees	0.073
Sum of Priority	1.000

Source: field data (2016)

The strategy of "Promote Marketing and Sales" executed through "Invest location" and "Make design and layout for branding" as tactical level indicators with the AHP priority of 0.474 and 0.301 respectively. According to the experts' comments hotel building is a physical form of communication and the management of the hotel need to effectively use space as a factor of branding. This could be in a form of architectural design, location, color codes, fixtures, and fittings. The consistency ratio of the AHP priority on "Promote Marketing and Sales" was 0.01.

"Design for innovation" which portrait conducive designing of building layout and structures which inspire work innovation with the 0.359 AHP weight identified as the key indicator of the CRE strategy; "Facilitate Management and Knowledge Work". According to experts' review, the layout arrangement and structure of the work environment encourage creative thinking and innovation of employees. Thus service departments like kitchen, bar, restaurants, and backend office of the hotel should be designed in a way which promotes creative thinking. This could be colour coding, heating, lighting and facility management. The second important indicator was "Accept business changes" with AHP weight of 0.311 encourages a timely change of the design, and layout of the service areas as per the changes in economic, technological and social changes or trends in the industry which ensure real estate support for innovation.

The final CRE strategy; "Increase Value of the Assets" operationalized through "Timely redevelop obsolete property" and "Trade off on lease purchase decision" received AHP weight of 0.401 and 0.312 respectively. Refer table 10 for details

Table 10: AHP Priority Weight Increase Value of the Assets Strategy

Indicator	AHP Weight
Timely purchase real estate	0.250
Timely redevelop obsolete property	0.401
Trade off on lease purchase decision	0.312
Manage risk of property	0.037
Sum of Priority	**1.000**

Source: field data (2016)

The management of the hotel need to focus and attentive on factors affecting the obsolescence of property including, economic, physical and financial obsolescence and take corrective actions timely to maintain the value of the property. The indicator trade-off between lease and purchase decision should be implemented with careful analysis of advantage of ownership, legal restrictions on ownership. The 0.059 consistency ratio for the AHP analysis confirmed the decision rule of Saaty (1987).

Conclusion

An AHP model designed to facilitate the CRE managers of the hotel industry in Sri Lanka to review the appropriate indicators or tactics of seven CRE strategies for the hotel industry in Sri Lanka. The model used five criteria to review indicators of each CRE strategy which identified through literature review. The hierarchy of the AHP model reflects the expert review of the study to reach the AHP goal which is applied in a simple spreadsheet calculation. The outcome of the AHP model confirmed relative importance of each indicator of the CRE strategy in the overall strategic application of the hotel industry in Sri Lanka.

Acknowledgment

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