Strategic Corporate Real Estate: A Diversion from Functional to Strategic Unit

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Abstract
The strategic intent of business organization implemented in the departmental level through its key functional areas including; marketing, production, finance and human resources while least attention is given to maintenance department of the organization. Top management of many organizations believes that maintenance plays a supportive role and ignores its strategic importance. However, the demand for efficient utilization of space and workplace productivity in today's global business environment ignites business organization to adopt a range of strategies for managing their real estate. Yet, the role of maintenance division is not capable to coup this strategic diversion. Thus, emergence of Corporate Real Estate (CRE) management proposed. The CRE strategy aimed to enhance the value of real estate and services to the core business. With this change, the top management of organization will spend time, contemplating their property portfolio other than to look at reducing its cost, realizing value from it or seeking to determine how property can improve their business by making strategic real estate. As a result, the aim of this concept paper discusses the importance of paradigm shift of the role maintenance of an organization to a CRE division to incorporate the reward of the strategic value of real estate to the overall performance of the organization.

Keywords: Corporate Real Estate, Strategy, Add Value

Introduction
Strategies are meant for achieving organizational goals. Corporate strategies are a plan of actions or policies designed to achieve overall objectives of the organization. Simply, it is the strategic management of resources of the organization (Ghemawat, 2002). According to Porter, (1996), top management of the organization review internal factors summarized as strengths and weakness with external factors; includes opportunities and

threats to balance the possible ways and means of achieving organizational goals.

A business without a clear strategy will not have the basis for existence or survival. A strategy of the organization is encircled with its economic context (Porter, 1996). Thus, the industry which the business operates has a positive contribution to the strategy of the organization. Henceforth, strategic actions are selected based on cost factor as well as cost sensitiveness of the decision. In other words, the impact of strategy is on firm's cost and revenue. Therefore the focus on firm's strategy aligns on how to achieve and sustain above-average return which supports to create a competitive advantage for an organization. However, in the competitive business environment, the sustainability of competitive advantage for business is questionable due to a dynamic market condition. Consequently, corporate management continually focused on quality, benchmarking and re-engineering of the business process to maintain competitive advantage of the business. To this end, corporates need to successfully implement corporate strategies to achieve the intended performance of the organization through its resources.

Corporate Real Estate

The organization gives higher emphasis to human resources, technology, information, finance, and marketing when it comes to efficient and effective management of its resources. Despite this, a marginal emphasis is placed on strategic management of its real estate (Creswell, 2012) which is a primary economic resource of production of any non-real estate organizations. The CRE a property which houses productive activities of a traditional corporation (Manning and Roulac, 1999) which includes both business (operational) and other non-operational (investment) properties of a non-real estate organization (Hiang Liow and Ooi (2004); Kooymans (2000) is a tactical level resource of organization which consume considerable amount of capital and long-term commitment on repair and maintenance (Kaluthanthri, 2009a).

Avis et al. (1989); Veale (1989); Teoh (1993); Andersen (1995); and Kaluthanthri (2009b) identified CRE is significant yet undermanaged segment of all corporate assets. Many executives of today's organizations claim that "we are not in the real estate business: hence, CRE management is not a significant issue to the company". Further it added, "CRE management is a function of the Finance Department and they will exercise for it" despite the fact that real estate represents 10 per cent to 40 per cent of total assets while occupancy costs can range between 3 per cent and 10 per cent of revenue or 5 per cent and 15 per cent of total cost (Schaefers (1999); Kaluthanthri (2009b). This creates negative attitude on CRE at the strategic level in many organizations (Brounen and Eichholtz, 2005). On the same context, Veale (1989) confirmed that 30 per cent to 40 per cent real estate asset portfolio hold by many Fortune 500 companies claims CRE operating expenses for 5 per cent to 10 per cent. Further, RICS (2002) confirmed, poor attention for CRE in the United Kingdom make a loss around £18 billion a year through the inefficient use of the property. However the same report inveterate that the effective attention and strategic management would improve the gross trading profit by up to 13 per cent. Meanwhile, the investigation the CRE holding pattern of distinct industries of industrialized economies found that significant negative relationship between real estate ownership and the systematic risk of the firm (Brounen and Eichholtz, 2005). On the other hand, the study of Hwa (2006) found contradict results that there is only a weak effect on stock return and CRE holding of companies listed on Bursa Malaysia (*Formerly known as Kuala Lumpur Stock Exchange*) and later, study of Tuzel (2010) confirming positive relationship between the amount of CRE holding and firm's systematic risk.

Nevertheless as per the Hiang Liow and Ingrid (2008) as cited by Sulaiman et al. (2013) and Wurdemann (2012) confirmed that CRE could use as an operational asset for increase organization's profitability through effective utilization and it is a value creator for the organization. Therefore, scholars argued that CRE is not a cost saver but the value creator for the organization. Moreover, Hiang Liow and Ingrid (2008) identified CRE as a strategic and a very flexible asset where organization sells it during a good time to make inward cash for business expansion. According to the Jalil Omar and Heywood (2014) in the globalized new millennium, the role of CRE has been upgraded to an extent of human resource management, finance, and support to internal culture development, productivity by facilitating convenient workplace environment for employees and making location advantage for business. Adding to the same argument Agentschap (2010) noted that use of energy within the organization can significantly reduce through the efficient CRE management programme. Supporting this argument Glumac et al. (2015) confirmed that effective maintenance activities lead to cost-effectiveness for energy reduction. Also, Joroff et al. (1993) found CRE is experiencing a rapid conversion to suits dynamic requirements of other corporate resources such as human resources and information services. Therefore the strategic importance of CRE as a contributory resource to the performance of the organization confirmed.

CRE: A Value Creator

The academic discussion on CRE and its contribution to value addition and performance were first discussed in the USA in the late 80s and early 90s. Nourse and Roulac, (1993) disclosed that a many US corporations did not have a formal real estate strategy and ignored the role of the CRE in the overall strategy of the corporation. Further, it is evident that New Zealand organization treat (Nichols, 2005) property as a passive contributor to business and offer attention only in a situation when the significant incident appears on the prospect. However, during the last decade (2000-2010) the role of CRE undergone a radical change and become a strategic resource (Harris and Cooke, 2014) which increases the efficiency and effectiveness of the organization. Yet the CRE as a discipline is still in a young stage without any empirical support (Harris and Cooke, 2014).

It is noted that although a separate units for real estate established in organizations, the unit focus on daily, routinely or myopic maintenance but not on specialized activities namely, corporate real estate planning, organization structure, and performance measurement. This poor attention on CRE makes hidden burden to strategic alignment of the business and weakens the overall performance of the organization (Tay and Liow, 2006, Hiang Liow and Ooi, 2004). Therefore strategic attention for CRE required (Hiang Liow and Ooi, 2004). Further, it is argued that CRE performance should measure in the context of metric and it should be communicated to CRE executives for linking CRE to the objectives of the business which makes CRE as an integral part of the business (Jordan et al., 2009) where higher performance or wealth accumulation earn through the alignment of CRE with the objectives of the organization (Lindholm and Leväinen, 2006).

Evidence on integration of CRE in strategic level of the organization and empirical discussion on impact on performance still at its early stages of development (Langford and Haynes, 2015) while, there are handful of studies tended to focus on the identification of nature of CRE practice in different industries (Kaluthanthri, 2009b, Kaluthanthri, 2009a, Kaluthanthri and Kumari, 2010, Kumari and Kaluthanthri, 2011). Veale (1989) noted that:

> *….both business schools and business itself should work to develop a well-organized and comprehensive approach to managing a corporation's real estate assets. Such an approach can begin to provide three key factors: first, a strategic framework for connecting the many*

> *elements associated with corporate real estate [. . .]; second, a means for prioritizing real estate demands and guiding overall policy and strategic direction; and third, the development of management tools and systems that can inform, support, and improve the actual decision making process.*

According to Nource and Roulac (1993), organization can implement eight real estate strategies including Minimization of occupancy cost, Increase flexibility, Promote human resources objectives, Promote marketing message, Promote sales and selling process, Facilitate production operation and service delivery, Facilitate managerial process and knowledge work and Capture real estate value creations of the business to improve the performance of the organization. The strategic drift of real estate from maintenance to CRE crate value to organization through promoting business, stimulating employee innovation, and enhancing core competency of the organization. Later, Seven CRE strategies of (De Jonge, 1996), introduced as Cost reduction, Increase of flexibility, Risk control, Increasing productivity, Changing the culture, PR and marketing, and Increase of value which add value to the organization. Lindholm & Leväinen (2006) CRE strategic model for value addition identified as the third salient review on CRE strategy and proposed seven CRE strategies as Reducing cost, Increase Flexibility, Increase Productivity, Increase Employee Satisfaction, Increase Innovation, Promote Marketing and Sales and Increase the value of the Assets.

The literature on CRE strategy is evident the twofold ability on value creation. One way of value creation derived from Cost Reduction while Revenue Generation through effective CRE management becomes the second option. Cost reduction is the process used by the organization as the most preferred option to reduce their costs and increase their profitability. Depending on an organization's real estate intensity services or product, the level of application may vary. However, contemporary CRE management proposed revenue generation as the effective means of strategy for add value to the organization over cost reduction. In this way, CRE can become a Revenue Generating Unit which is an independent department who generates recurring revenue for an organization while supporting reduce overall cost on CRE. Refer Figure 1 for conceptualization of CRE Department

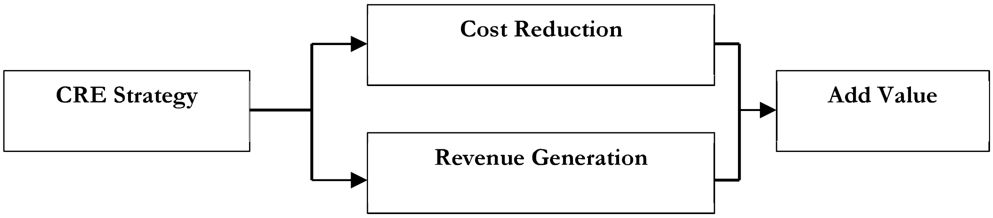

Figure 1: Paradigm shift from Functional to Strategic Unit

Strategies like Cost reduction, Increase of flexibility, Risk control, Increasing productivity and Facilitate Production Operation and Service Delivery (Nource and Roulac, 1993; de Jonge, 1996; Lindholm & Leväinen, 2006) deal with the tactical level programme of how to reduce overall cost of the organization and thereby add value to organization. The Cost Reduction role of the focused on how to support the organization by way of minimizing the real estate related cost of the organization. At the tactical level CRE division need to implement the programme on energy efficiency, recycling, effective waste management, efficient use of workspace, service friendly designs, multiple use of space or space optimization, establish workplace standards on real estate usage to earn cost efficiency. The involvement of CRE at strategic level decision making becomes crucial.

On the other hand Nource and Roulac, (1993); de Jonge, (1996); Lindholm & Leväinen, (2006) argued that CRE has the strategic perspective to contribute revenue generating and thereby add value. Proposed strategies including HR Satisfaction, Marketing, sales, Increase Innovation through facilitating knowledge work of the organization and Real estate portfolio management contribute to generating revenue from effective management of CRE. Tactical level plans like an introduction of a functional workplace, conveniently built environment, invest location, link environment with company product, use of design and layout of building for branding and/or marketing, timely purchase real estate and manage the risk of property are examples.

Being the traditional maintained department on real estate does not provide above identified strategic advantage or strategic support for the organization. The review of three salient discussions in CRE strategy confirmed that all focused on value creation of CRE. One important factor on this discussion revealed that CRE no longer a maintenance department and focused on strategic activities. Accordingly, the role of CRE evolved from steward to strategist. Therefore this conceptual paper proposed a CRE diversion from functional to the strategic unit in any organization for earn strategic benefits of CRE.

Conclusion

This conceptual paper discusses the contribution made by the strategic CRE by incorporating real estate as a strategic resource of an organization. Being the latest valued assets of a many organization corporate real estate should be used as a value driven resource. Examining the value-adding perspective of CRE including both direct and indirect ways optimize suitability of the chose strategy of an organization and contribute to the core business. The practical implication of this concept paper enables through empirical investigation on finding the correlation and the impact between CRE strategies and performance or value adding to the organization.

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