Strategic alignment of Corporate Real Estate

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Purpose/value: With the growing complexity of organizations, it becomes increasingly important to tune the strategies of different business functions. In order to add maximum value to the organization, real estate strategies have to be aligned with corporate strategy. The purpose of this paper is to provide more insight in the alignment process itself, instead of focussing on distinguishing different possible strategies and their outcomes like most previous papers.
Method: We compared and evaluated 8 models that claim to align corporate and real estate strategies and tried to pinpoint the mechanisms behind these alignments. The clearest alignment process is then applied to the rapidly changing care sector of the Netherlands. This sector was chosen because current developments place care institutions in a much more competitive market then before, so a change in driving forces is imminent. In total, 20 experts in this sector were interviewed extensively.
Findings: Studies on alignment of corporate real estate tend to use many different corporate strategies, which is the main reason that there exist so many different alignments. And although possible real estate strategies are clear, the alignment itself is where most models become vague and rely on expert knowledge. To start alignment, the focus should be on the first step of strategy formulation, represented by the concept of driving forces from Tregoe and Zimmerman (1980). Results from the application to the care sector provide insight in the importance of each real estate strategy for each driving force for this sector specifically. But more importantly, they show how strategy alignment is still a disputable field with a lot of necessary research ahead.

Introduction

In today's knowledge economy, the specialisation of employees has increased the necessity to network and share knowledge. This networking has lead to a growing complexity of organizations and the need to put more effort in tuning different business functions. Corporate Real Estate Management (CREM) is one of these business functions that receives an increasing amount of attention. Where, previously, it was considered to be a big (financial) burden, now CREM is working towards an alignment of their efforts with the central organisational strategy. Because of the immobile character and often long-term commitments that accompany CRE this alignment is not as easy as it sounds. Several studies have aimed at developing an alignment model to distillate the right CRE strategy from corporate objectives, but they use many different strategies and terms. Therefore this paper tries to provide more insight in the alignment process itself, by comparing and evaluating previously developed models to pinpoint the mechanism behind the alignment.

The first section shortly describes theories on strategic thinking to identify where the alignment of CRE should take place. Next, 8 different alignment models are evaluated on how they fit into the strategic thinking process of organisations. Findings from the literature study are applied to the Dutch care sector, to study the alignment process in more depth. Last, the results from this fieldwork are discussed and conclusions and recommendations follow.

Strategic thinking

Strategy comes from the word stratēgōs, which means a general. The field of strategic management contains a lot of military words, like objectives, mission, strengths and weaknesses (Swayne, Duncan and Ginter, 2006). It first started to professionalise in the 1950s, when the post-WWII economies were growing fast and companies experienced the need for long-range planning of demand. In the 1960s and 70s long-range planning evolved into strategic planning, due to the increasing volatility of organizations. In the 1980s this concept evolved further into strategic management, underlining the fact that a strategy not only had to be determined, but continuously needed evaluation and adjustment. Since then strategy theories have flourished and continue to do so, leading to a complex field of research. Mintzberg, Ahlstrand and Lampel (1998) defined 10 different 'schools of thought' that have appeared through the years, calling for a synthesis of all schools. They state that *"there is a terrible bias in today's management literature toward the current, the latest, the 'hottest.' This does a disservice, not only to all those wonderful old writers, but especially the readers who are all too frequent offered the trivial new instead of the significant old (Mintzberg, Ahlstrand and Lampel, 1998)."* Swayne, Duncan and Ginter (2006) have developed a strategic thinking map trying to provide a synthesis, distinguishing between strategic thinking, strategic planning and strategic momentum (see Figure 1). Strategic planning at corporate level should induce strategic thinking at divisional level, leading to strategic planning at this level, picked up again for strategic thinking at a lower level in the organization, etc. etc.

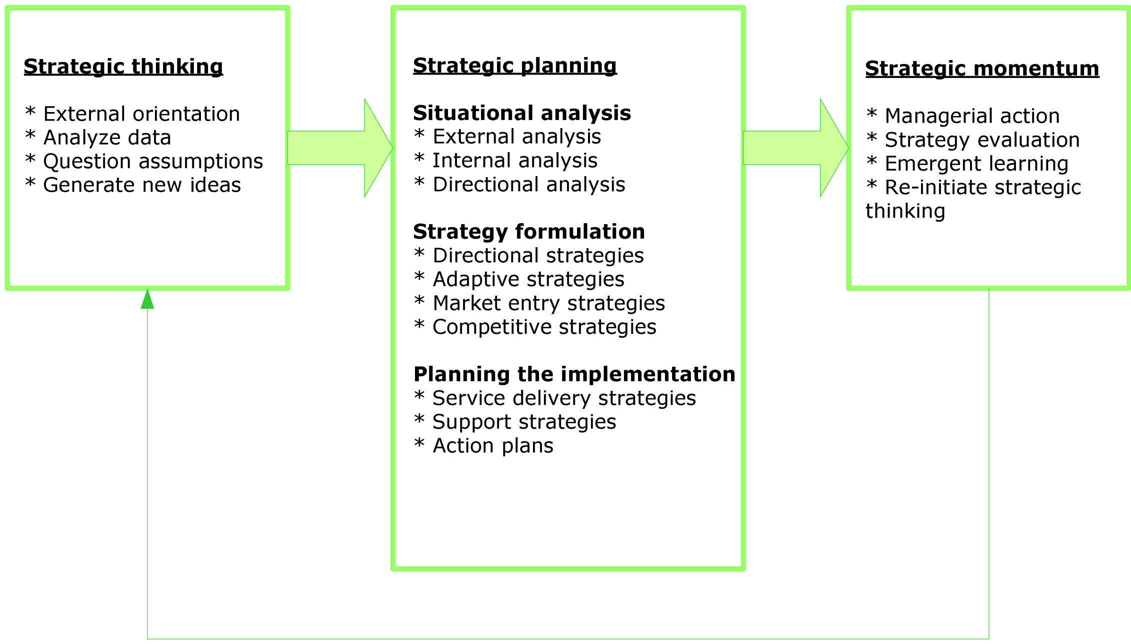

Figure 1 Strategic thinking map by Swayne, Duncan and Ginter, 2006

Since the plea of Joroff et al. (1993) to start seeing corporate real estate (CRE) as the fifth corporate resource, an evolution of corporate real estate management (CREM) has started from technical building engineers into business strategists. Some have climbed this ladder already, but the end of the road is for many still far ahead. The business strategist CRE manager should be involved at the strategic thinking and planning at corporate level, because CREM is then defined as: "*The management of a corporation's real estate portfolio by aligning the portfolio and services to the needs of the core business(processes), in order to obtain maximum added value for the businesses and to contribute optimally to the overall performance of the corporation*" (Dewulf, Krumm and De Jonge, 2000). The alignment of CREM is the main subject of underlying paper and will be placed in the context of the strategic thinking map.

Alignment of strategies

Literature review of journal articles on the subject of alignment between corporate and real estate strategies up until 2007, provided 8 studies in 3 different journals, mostly published in the new millennium:

- The Journal of Real Estate Research
  - Nourse and Roulac (1993)
  - Roulac (2001)
  - Lindholm, Gibler and Leväinen (2006)
- Journal of CRE
  - Acoba and Foster (2002)
  - Osgood (2004)
  - Scheffer, Singer and Van Meerwijk (2006)
- Journal of Propery Investment and Finance
  - Krumm and De Vries (2003)

Apparently the subject is only studied in Finland, the Netherlands and the USA by a small community of academics, building on each other's work. The early work of

Nourse and Roulac (1993) set a very good standard, since many have used either their list of corporate strategies or their list of real estate strategies.

Table 1 gives an overview of both lists of strategies that each (group of) author(s) used and values them using colors (green = best, yellow = has disadvantages, red = not useful). Looking at the corporate strategies, the quote of Mintzberg, Ahlstrand and Lampel mentioned earlier is confirmed again: only half of the studies define their corporate strategies on previous work (by Tregoe and Zimmerman, 1980; Kaplan and Norton, 2000 or Porter, 1996), while the others 'make up' their own list. Because of this, the lists used to determine the corporate strategy differ greatly. The most extensive and useful lists are based on the 9 driving strategies as defined by Tregoe and Zimmerman (1980):

- Products offered
- Market needs
- Technology
- Production capacity
- Method of sale
- Method of distribution
- Natural resource
- Size/growth
- Return/profit.

The driving forces theory considers all 9 areas to be of relevance for the corporation, but only one is most important and thus driving the organization's decision making. Both Nourse and Roulac (1993) and Scheffer, Singer and Van Meerwijk (2006) used this theory. Together with the Osgood (2004) study, these are valued as best, because they best fit in the strategic thinking map. In this map, the strategic planning process starts with a situational SWOT-analyses, followed by strategy formulation (see Figure 1). The first step of strategy formulation is to define the directional strategies, which should be based on mission, vision, values and goals (Swayne, Duncan and Ginter, 2006). Both the driving forces theory as the aspects mentioned by Osgood, are based on determining a directional strategy, so they are part of the first step of strategy formulation. The study of Roulac (2001) does not mention a list of corporate strategies and Acoba and Foster (2002) do not thoroughly explain their strategies, so they are marked as not useful. The others have the disadvantage that they have a narrow focus on either finances (Krumm and De Vries, 2003; Lindholm, Gibler and Leväinen, 2006) or competitive strategies (Singer, Bossink and Van De Putte, 2007) which should be determined later according to the strategic thinking map.

Looking at the real estate strategies, a lot more similarities can be seen. Nourse and Roulac (1993) were the first to determine CRE strategies, and their work has been embraced by others (Roulac, 2001; Lindholm, Gibler and Leväinen, 2006). Around that same time a Dutch work of De Jonge (1996) published a list of CRE strategies, that has been embraced by some European academics (Krumm and De Vries, 2003; Scheffer, Singer and Van Meerwijk, 2006; Lindholm, Gibler and Leväinen, 2006). Lindholm, Gibler and Leväinen combine both lists, because they almost cover the same aspects, leading up to a complete overview of 7 CRE strategies:

- Increase value of assets
- Promote marketing and sales
- Increase innovations
- Increase employee satisfaction
- Increase productivity
- Increase flexibility
- Reduce costs.

Acoba and Foster (2002) developed their own list, which has the disadvantage that it misses a productivity strategy. The list of Osgood (2004) is not explained as thoroughly and Singer, Bossink and Van De Putte (2007) take a very different viewpoint, by focussing on a higher level strategy. Both these studies are therefore marked as not useful.

Next, we looked at the alignment process of the studies. Because Roulac (2001) does not use corporate strategies, there is not really an alignment taking place. The same can be said about Singer, Bossink and Van De Putte (2007), because they align with competitive strategies only. The Osgood (2004) alignment appears to have potential, but is not explained thoroughly. Therefore these 3 studies are marked with a red color. The disadvantage of the alignment method of Krumm and De Vries (2003) and Lindholm, Gibler and Leväinen (2006) lies in the narrow focus of their corporate strategies. The disadvante of Acoba and Foster (2002) is that they create groups of possible real estate strategies for a certain corporate strategy, which makes it less elaborate. A further specification seems missing. The most complete and useful alignments are made by Nourse and Roulac (1993) and Scheffer, Singer and Van Meerwijk (2006). Because they use clear and relevant lists of both corporate and real estate strategies, they cover the entire first step of strategy formulation. Both methods indicate for each possible pair of strategies whether they should be aligned. Nourse and Roulac (1993) take an extra step, because they also value the strength of each pair. Thinking back to the theory of driving forces, this seems more realistic. Not every real estate strategy can deliver the same impact on a corporate driving force. This impact is important information for good decision making.

Although the process of aligning strategies seems clear and elaborate, the alignment itself remains questionable in both studies. It is not clear why certain strategies should be aligned, and why others not, nor what determines the strength of an alignment. It appears to have been based on intuition. That is why our fieldwork, described in the next section, tries to take a first step in creating an empirical base for the alignment between each pair of strategies. We have chosen for one sector only to maximise the external validity of our results. In this case, we chose for the Dutch care sector, which will be described next.

Author(s), (year)	Corporate strategies	Real estate strategies	Alignment
Nourse and Roulac (1993)	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	1. Occupancy cost minimization 2. Flexibility 3. Promote HR 4. Promote marketing 5. Promote sales and selling 6. Facilitate/control production, operations, service delivery 7. Facilitate managerial process and knowledge work 8. Capture real estate value creation of business	
Roulac (2001)	X	see Nourse andRoulac (1993)	
Acoba and Foster (2002)	1. People strategies 2. Processes 3. Enabling systems strategies	1. Real estate acquisition 2. Space alteration 3. Organizational structure 4. Sourcing strategies 5. CRM 6. Employee development 7. Workplace standards 8. Fee-for-service/ chargeback systems 9. Info management and IT	
Krumm and De Vries (2003)	1. Revenues growth 2. Costs reduction	1. Increasing productivity 2. Cost reduction 3. Risk control 4. Increase of value 5. Increase of flexibility 6. Changing the culture 7. PR and marketing	
Osgood (2004)	1. Mission and Vission 2. Customers and markets 3. Products and services 4. Distinctive competences 5. Values and culture	1. Quality of space 2. Cost of space 3. Quantity of space 4. Location of space 5. Technology of space 6. Practices for providing space	
Scheffer, Singer and Van Meerwijk (2006)	see Nourse andRoulac (1993)	See Krumm and De Vries (2003)	
Lindholm, Gibler and Leväinen (2006)	1. Revenue growth 2. Profitability growth	1. Increase value of assets 2. Promote marketing and sales 3. Increase innovations 4. Increase employee satisfaction 5. Increase productivity 6. Increase flexibility 7. Reduce costs	
Singer, Bossink and Van De Putte (2007)	1. Lowest costs 2. Differentiation 3. Focus	1. Incremental strategy 2. Value-based strategy 3. Standardization strategy	

Table 1 Overview of corporate and CRE strategies of all studies

Competition in the Dutch care sector

With the downturn in the economy, competition has increased in almost every sector of industry. For our fieldwork we focussed on the Dutch care sector, because of the rapid changes in this sector, making competitiveness even a bigger issue. After decades of strong governmental regulation, the sector is now being privatised. Therefore, new entries in the market are imminent, and the current care institutions have to rethink their strategy. The market forces that they were already facing through the ageing of society are a demand for more differentiation and longer independent living. The elderly people are more emancipated, individualised and some have higher incomes. On the other hand, the smaller working population leads to decreasing tax incomes/social budgets and fewer personnel in the care sector. In addition, technological developments are booming, like domotica, sustainable building and the presence of a healing environment. Desk research and interviews with 20 experts from care institutions (7), consultants (10) and independent organizations (3) identified the following impact of these trends on the real estate of care institutions:

- More small-scaled locations and private homes versus less intramural care facilities;
- Higher exploitation risks;
- More attention for marketability/value;
- More demand for flexible and efficient real estate;
- More attention for client satisfaction;
- More attention for the living environment;
- More attention for design/image;
- More demand for differentiation;
- More innovations, ICT and domotica.

From the 9 driving forces from the literature review, 2 were not relevant for the care sector according to the experts, namely 'method of distribution' and 'natural resources'. When asked about the existence of corporate strategies in care institutions, the opinions diversified. The care institutions feel that they do have corporate strategies, but the consultants and the independent experts have a different opinion. The corporate strategies of institutions that claim to have a strategy are mostly focused on client satisfaction (market needs) and on operational efficiency (production capability). With operational efficiency they mean offering as much as possible with a limited budget. From the participating care institutions about half thinks that they will not change their corporate strategy, because it is resistant to the changes. The other half believes that they will have to change their corporate strategy, because it is insufficient.

The experts identified an extra real estate strategy, specifically for this sector, namely to 'increase client satisfaction'. The care institutions all believe that they are working with real estate strategies and that they are using their real estate to achieve the goals of the organization. Again, the independent organizations and the consultants do not agree. Half of these experts believe that the care institutions are not working with real estate strategies at all and the other half believes that they try to, but that the strategies are not very tangible. The current focus is divers and location dependable, but mostly on flexibility and client satisfaction. Again half thinks that their real estate strategies will survive the changes in the market and half thinks that they will have to change or even start to formulate real estate strategies.

An alignment had to be made between 7 driving forces and 8 real estate strategies for this sector. Because this would be a lot of work for each expert, only the 6 consultants from the supporting company of this study filled in score sheets with a 5-point Likert scale (see Figure 2) for all possible combinations. The others are asked to indicate which driving force was most important in the past and which will be in the future. Then they filled in score sheets for these 2 driving forces only, to save them some time. If the future driving force was the same as the past one, a second most important driving force was asked or sometimes the least important one.

On the question whether alignment between corporate and real estate strategies was already taking place, the same division was visible as with the questions on strategies. Some care institutions feel they are (successfully) aligning real estate, some do not, but most consultants/independent experts say they do not. They all agree that alignment, if taking place, is not optimal most of the time. The care institutions that did claim to align their strategies said to do so by adapting their size and their image to the market and confer to the wishes of their clients. Results on the actual alignment as indicated by all experts are discussed in the next section.

Driving force:							
Cost minimization	Unimportant						Important
Increase innovation	Unimportant						Important
Increase flexibility	Unimportant						Important
Increase productivity	Unimportant						Important
Increase value	Unimportant						Important
Increase employee satisfaction	Unimportant						Important
Increase client satisfaction	Unimportant						Important
Promote marketing and sales	Unimportant						Important

Figure 2 Example of the score sheet for the experts

Discussion – implications of a change in driving force

As becomes visible in Figure 3, a clear change in driving force is imminent in the care sector. Most of the experts agreed, that the focus on products offered from the past, has to change into a focus on market needs. Because of the privitisation, it is no longer possible to push clients into using the limited products available. From now on the clients are the boss, and their demand has to be identified (market studies) and answered with the right products.

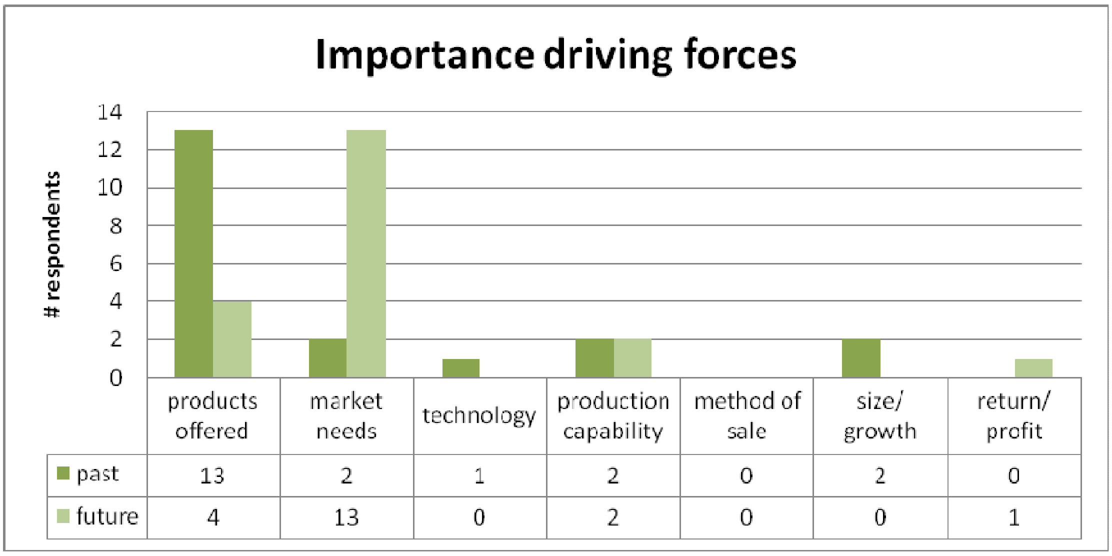

Figure 3 Importance of driving forces in the past and the future

According to the experts, the real estate strategy that has the best alignment with a focus on market needs is to ‘increase client satisfaction’ (see Figure 4, for the other driving forces and alignments see appendix). The box plot indicates the average value by the diamond shape and it indicates the range of the answers by the black line. The first part of the black line represent the range of the first quarter of the answers, the gray box represent the second en third quarter of the answers and the last part of the black line represents the 4th quarter of the answers. This is a simplification of the data range of the answers, but it provides quick insights. The experts very much agreed on the increase of client satisfaction as the important real estate strategy to follow in this case, with an average score of 4,81 and 3 as the lowest score. Flexible real estate and a built environment that increases innovation and promotes marketing and sales also benefit this driving force. Obviously, a focus on cheap real estate is not likely to increase client satisfaction. A notable result is that the same real estate strategy (increase client satisfaction) also turned out to be the best alignment with the past driving force of care institutions ‘products offered’. This would support the opinion of several care institutions that it is not necessary to change their real estate strategy to answer to the trends causing a change in driving force.

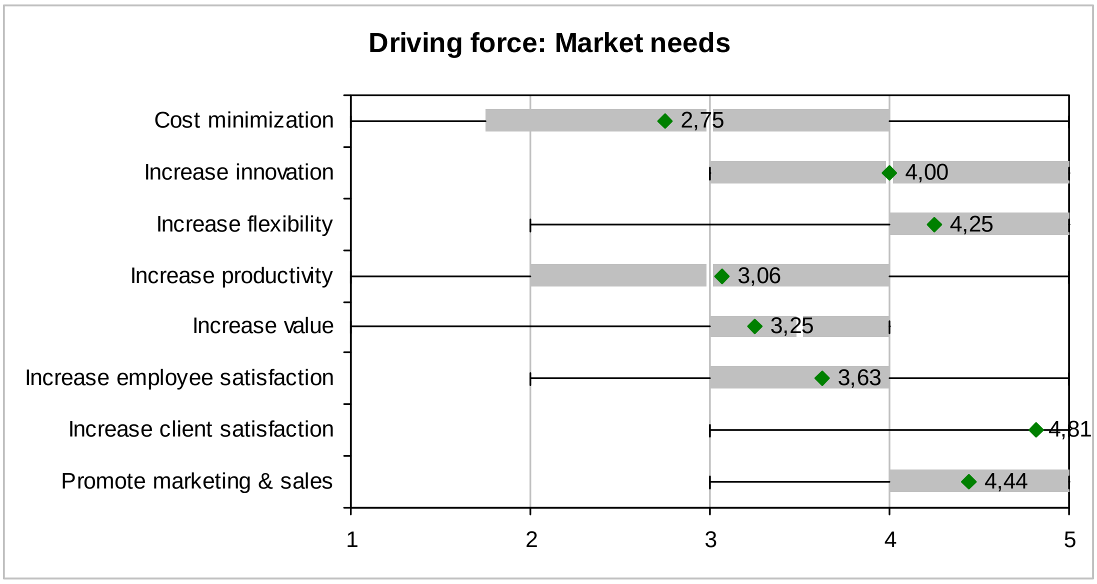

Figure 4 Box plot alignment 'Market needs' with real estate strategies

Although the process of determining the alignment is clear this way, is does not provide a univocal, indisputable alignment. We tried to make an overview of the alignments supported by most experts (see Figure 5); all average scores higher than 4 are indicated with an arrow (dashed between 4-4,5 and solid > 4,5). We found two notable results:

- The driving force 'size/growth' has no strong alignment with any real estate strategy. This seems odd, considering that a care institution needs a sufficient amount of space to be able to grow.
- The real estate strategy 'increase employee satisfaction' does not align strongly with any driving force. In a sector where care is provided (partly) through employees this seems highly unlikely.

Strong alignments that are more obvious and could have been expected are for example between the driving force 'technology' and CRE strategy 'increasing innovation' and between the driving force 'return/profit' and CRE strategies 'cost minimization' and (less so) 'increase value'. The experts were not as unanimous on this last alignment, whether CREM should aim at increasing the value of the CRE to support the profit making aims of the organisation. Since CREM is not set up to act as a real estate company, it seems questionable whether the expertise for such a task is present in these organisations and it is wise to try and act as such. More disagreements between the experts are visible (see appendix), making the alignment process indeed more complex than it appears to be. Even when there is agreement between experts on possible strategies that exist.

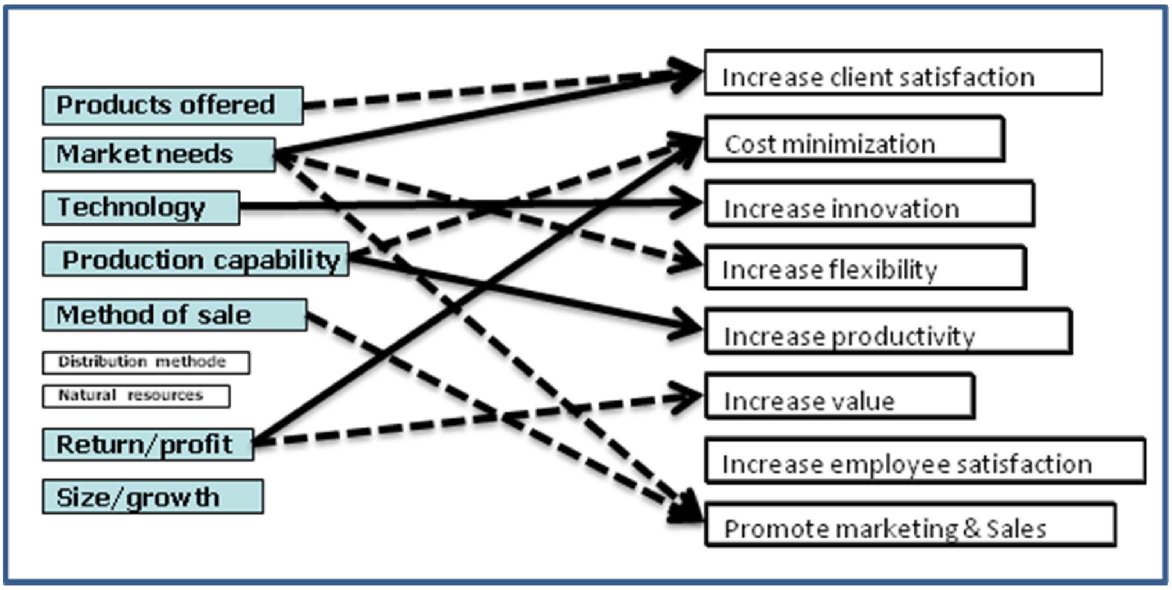

Figure 5 Box plot alignment 'Market needs' with real estate strategies

Conclusion and recommendations

There is still a lot of work to be done in studying the alignment of real estate strategies and corporate strategies. Even by studying just one sector it turns out to be hard to find a definite alignment mechanism. Previous studies trying to model the alignment process have developed concordance in possible real estate strategies, but the alignment still depends mostly on expert knowledge which is not always available in a CREM department. We tried to take the next step, by placing alignment models in the bigger picture of strategic thinking and trying to perform the task for one sector. Next steps in research could be to continue the alignment further along the strategic thinking map until the implementation and evaluation of the alignment process itself. Also, it could be studied whether different sectors show much difference in the alignment mechanism itself. More insight in the alignment process helps CREM to professionalise and, maybe more importantly, to prove their added value for the organisation.

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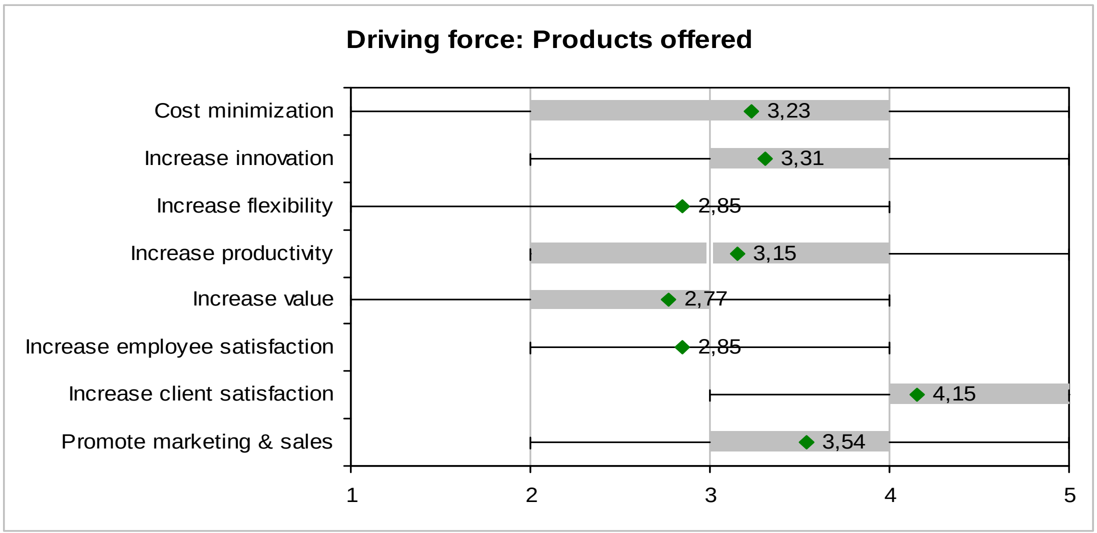
Appendix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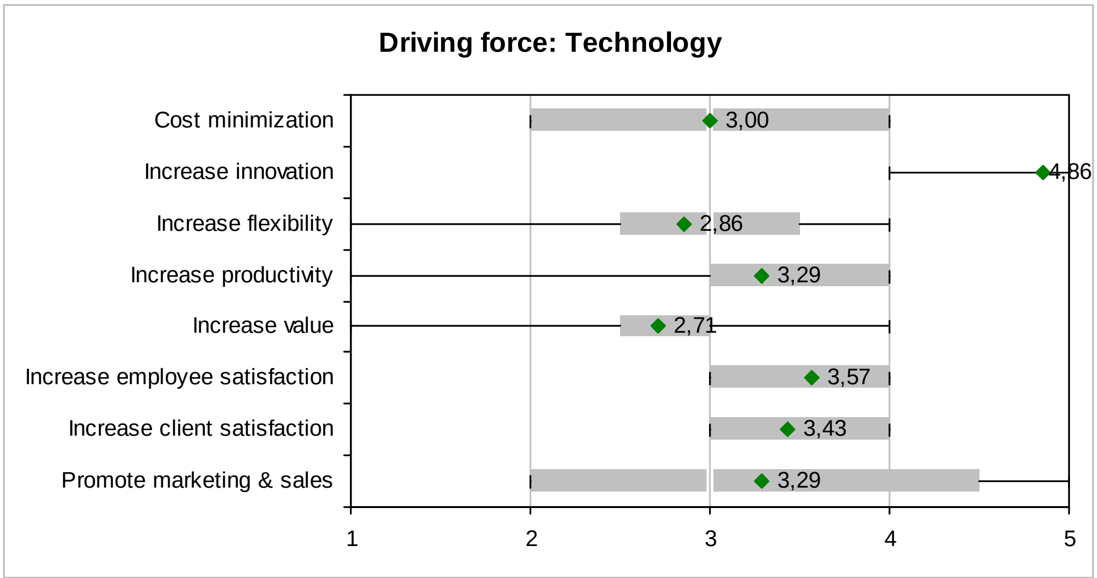
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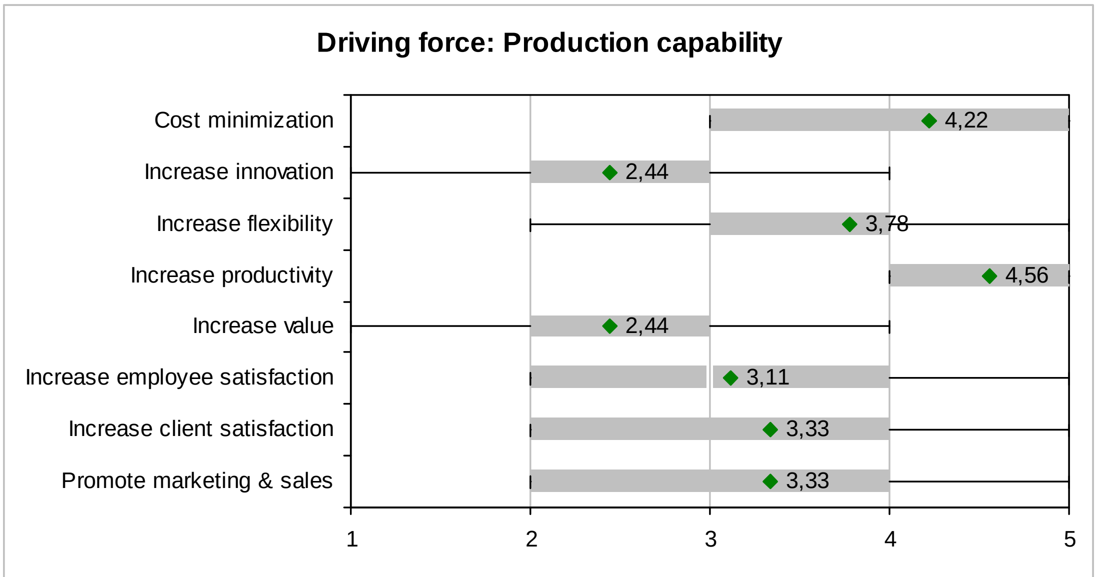
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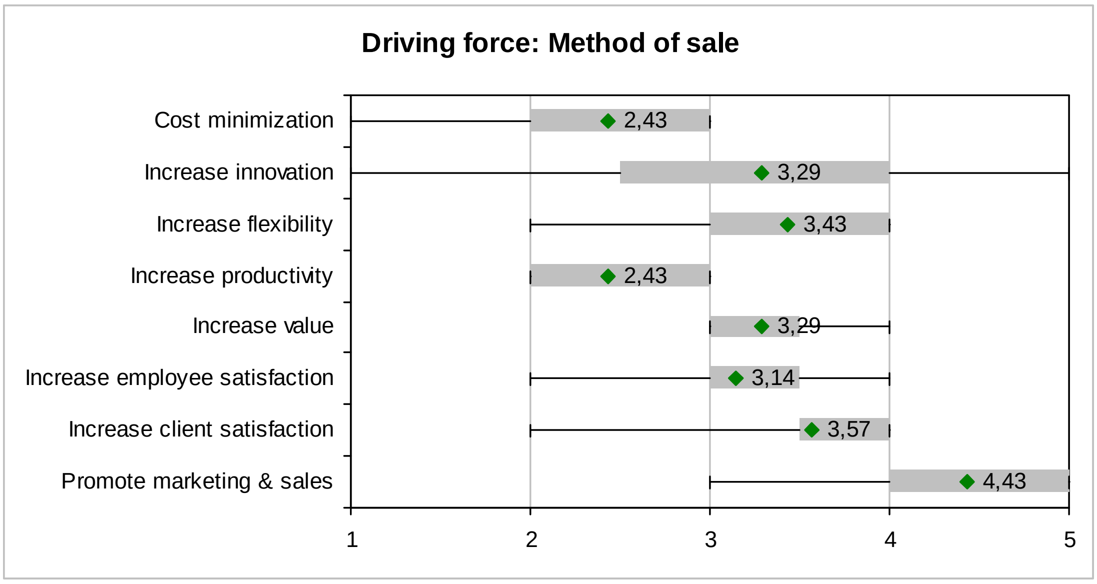
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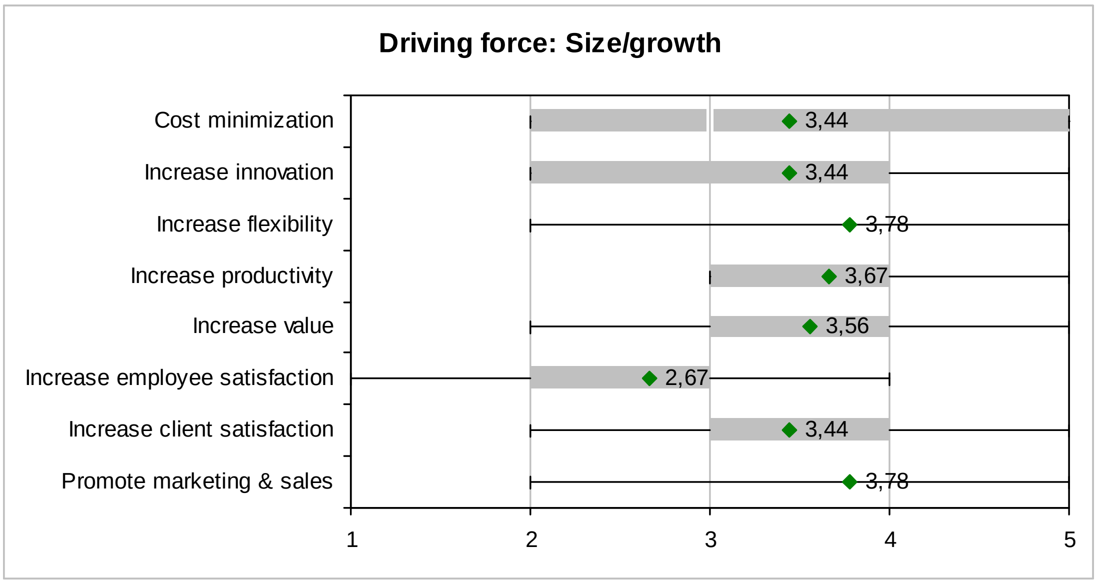
Driving force: Size/growth
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Driving force: Return/profit
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