

A multi-disciplinary view on a corporate real estate alignment model

Article

Accepted Version

Cooke, H. ORCID: <https://orcid.org/0000-0003-3309-7921> and Appel-Meulenbroek, R. (2023) A multi-disciplinary view on a corporate real estate alignment model. Journal of Corporate Real Estate. ISSN 1463-001X doi: 10.1108/JCRE-09-2022-0029 Available at <https://centaur.reading.ac.uk/112650/>

It is advisable to refer to the publisher's version if you intend to cite from the work. See [Guidance on citing](#).

To link to this article DOI: <http://dx.doi.org/10.1108/JCRE-09-2022-0029>

Publisher: Emerald Publications Ltd

All outputs in CentAUR are protected by Intellectual Property Rights law, including copyright law. Copyright and IPR is retained by the creators or other copyright holders. Terms and conditions for use of this material are defined in the [End User Agreement](#).

www.reading.ac.uk/centaur

CentAUR

Central Archive at the University of Reading

Reading's research outputs online

A multi-disciplinary view on a corporate real estate alignment model

Abstract

Purpose: This concept paper examines a recent comprehensive Corporate Real Estate (CRE) alignment model which was derived from previous CRE alignment models. It proposes several modifications and additions based on business and decision-making literature to increase the framework's multidisciplinary strength and extend its implementation phase.

Design/Methodology/Approach: Literature from various fields is reviewed and 'lessons' incorporated into the framework. The business literature review began with corporate strategy theories cited in CRE alignment theory and extended to critiques of those and into more recent theories. Likewise decision-making and implementation both began with material cited in CRE literature and 'rippled' out to encompass pertinent material.

Findings: The model used provides a robust framework and the study has identified several areas that would appear to improve that model from a theoretical and practical perspective. Areas of further research are identified that appear to offer opportunities to further develop the framework.

Originality/Value: Historically there has been a tendency for new CRE alignment models to be created rather than existing ones developed further. Here a framework derived from a meta-study of CRE alignment models is reviewed and improvements are proposed to further develop CRE alignment theory and its application in practice through addition of viewpoints from the business field and more focus on the implementation phase of the model.

Keywords: Corporate Real Estate; alignment; framework; model

Introduction

The business environment since the turn of the twenty-first century has become more turbulent, uncertain, novel, and ambiguous (Ramirez & Wilkinson, 2016). This can be seen in several major disruptive events: the Dot-Com boom; the Financial Crash; the Great Recession; and the Covid-19 pandemic. Such events create volatility in the business environment necessitating change to corporate strategy. Firms need to deal quickly with issues that arise, many of which are 'known unknowns' (Rumsfeld, 2002). That requires innovation, a flexible mindset (McGrath, 2013), and a decision-making structure capable of facilitating such rapid adjustment (Blenko et al., 2010). Volatility and uncertainty create only short periods of competitive advantage before corporate strategy needs to adjust. The five-year strategic plan has become obsolete because of the frequency of change to the business environment; corporate strategy now needs to continually flex to suit new circumstances. That requires a strategy model that incorporates frequent change as a factor, such as Transient Competitive Advantage (TCA) (McGrath, 2013) rather than one that assume stability (e.g., Sustained Competitive Advantage (SCA) (Porter, 1985)).

Corporate Real Estate (CRE) strategy is derived from corporate strategy and is not independent of it. As the latter adjusts it necessitates a re-evaluation, and possibly an adjustment, of the firm's CRE. There is an inherent conflict here because 1) CRE is an inflexible resource for most organisations (Gibson & Lizieri, 1999) (in part a consequence of lease length, albeit they have shortened), 2) CRE's multi-dimensional and cross-functional nature (Park & Glascock, 2010) and 3) the capital and accounting standards. This creates an inherent conflict between the needs of the corporate for flexibility, the ability to deliver the right CRE at the right time and accounting protocols. The scale of the turbulence in the business environment has made agility an essential requirement for CRE (Joroff & Becker, 2017), as inflexibility impacts CRE decision-making and realignment (e.g., Lindholm & Leväinen, 2006). Such inflexibility can be seen to lead to the demise of a firm (e.g., Debenhams (BBC 2020)), yet despite its importance there remain very few researchers examining CRE alignment, particularly from the viewpoint of business literature.

Three additional criticisms of CRE alignment research have been identified by previous studies. Firstly, that the research has not drawn upon insights derived from other supporting resources in the organisation. Secondly, CRE researchers have tended to propose new theories rather than developing existing ones (Lizieri, 2003). Third, the theory of CRE alignment is said to be disordered (Heywood &

Arkesteijn, 2017). An additional shortcoming of the research that the authors would like to add, is that the focus of CRE alignment models lies on strategy formulation only, rather than the formulation and implementation of the strategy. Strategy encompasses both plus decision-making. Kotter (cited in Beer et al., 2005) attributes the success of a business strategy as 10% from strategy formulation, and 90% from implementation. It also reflects the importance of adjusting and moulding the strategy to fit the firm's specific needs during the implementation phase. The strategy will evolve as circumstances emerge in response to the changing environment, it needs to be deliberate and emergent (Mintzberg & Water, 1985). A CRE strategy does not add value until it has been implemented and the portfolio matches the needs of the firm and for CRE, more than other areas of the business, it is critical to 'skate to where the business will be' (Christensen et al., 2001). The long lead-times, and time taken to implement change to the CRE portfolio necessitates considerable foresight when making operational decisions. So far, there has been little evidence of the adoption of academic CRE alignment models in practice or even evidence that CRE alignment is fully achieved in practice by organisations (e.g., Cooke et al., 2019a).

The objective of this paper, therefore, is to upgrade the most recent CRE alignment model (Heywood & Arkesteijn, 2018), a model derived from a meta-study of previous models, with insights from business and decision-making literature to increase its multidisciplinary strength and extend it into the implementation phase. Business research is very extensive, and it goes beyond the scope of this paper to fully explore it. The approach to identifying pertinent business literature began with exploring the corporate strategy theory cited in CRE alignment work (e.g., SCA) and critiques of those theories based on more recent corporate strategic thinking approaches (i.e., TCA). A second strand examined decision-making in businesses and its impact on strategy formulation and implementation. The final strand was whether other parts of the firm had similar issues to CRE in their alignment with the corporate strategy and objectives. It is acknowledged that further research in this area would provide additional benefit and an opportunity to upgrade the model further in the future.

The structure of the rest of the paper is a short review of CRE alignment theory, followed by a discussion of each of the framework's building blocks, leading to the proposed variations/additions to the framework based on insights from a range of other related literature.

Development of CRE alignment theory and models

Most CRE alignment models draw on the work of Nourse & Roulac (1993), which is based on an even earlier paper (Trego & Zimmerman, 1980) and is framed against the corporate strategy model of SCA (Porter, 1985). This raises issues on the age of the research, its underlying assumptions and because the approach is on a "specific real estate decision" (Nourse & Roulac, 1993: 475), not portfolio alignment per se. Considerable change has happened in the intervening four decades not only within CRE, but with technology, the business environment, customer profiles, etc. Porter's theory was primarily aimed at large manufacturing entities and not the service sector and it assumed infrequent change. The very short lifecycles of products and services seen today are not factored into that model. The approach of selection of an individual property, rather than CRE alignment theory, narrows the discussion to operating decisions not strategic ones. For example, under risk management the authors discuss risks that employees and third parties might face from accidents in a particular property, not the broader risk arising from CRE misalignment. Many CRE alignment models reference corporate strategy theories that assume change that is slow (e.g., TCA), rather than those theories predicated on frequent change to the corporate strategy (e.g., SCA and Blue Ocean Strategy (Kim & Maugborgne, 2015)), in part reflecting the age of the theories. Consequently, they are not necessarily reflecting the current business environment business operates in. Most CRE alignment models are based on an overall objective of maximising shareholder wealth through revenue or profitability growth (e.g., Gibler & Lindholm, 2012). This objective for business theories has been criticised as inappropriate (e.g., Stout, 2012) and is falling out of favour as firms now focus more on ESG (Environmental, Social & Governance) issues (Business Roundtable, 2019). That change has had limited impact on CRE alignment models, although some consider broader stakeholder groups (e.g., Jensen & Van der Voordt, 2017) and others consider not for profit organisations (e.g., Beckers et al, 2015).

The CRE alignment model proposed by Heywood & Arkesteijn (2018) is derived from an extensive review of previous models, ranging from Nourse & Roulac (1993) to Then & Tan (2013). Therefore, it distinguishes itself from other papers that have only sought to propose new models and ignored existing

ones (Lizieri, 2003). The authors identified four building blocks, conceptualised in Figure 1 (Heywood & Arkesteijn, 2018). It does not provide specific alignment strategies for firms, that is regarded as a benefit as the framework avoids the office-centric approach of many of the theories and is applicable to non-commercial organisational types. The ‘building blocks’ are broad in nature and as such do not list specific issues such as CRE characteristics, organisational goals, etc. The advantage of the framework though is that it allows individual organisations to build their own specific characteristics and requirements around the broad headings.

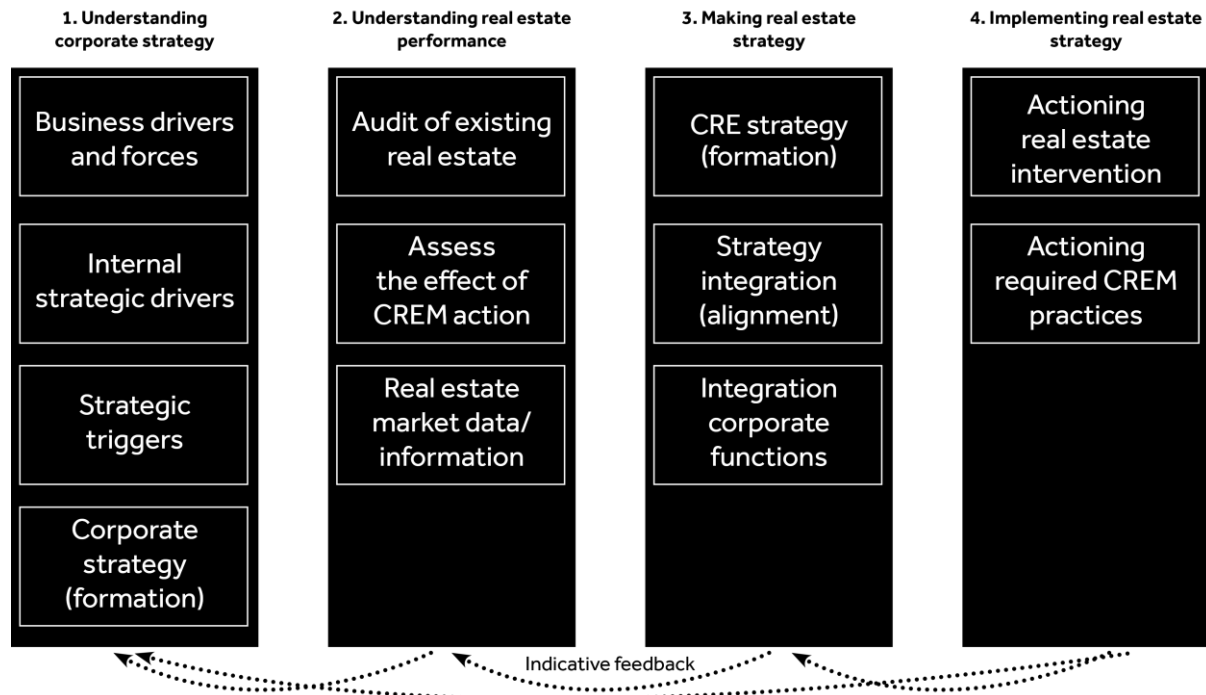


Figure 1 CRE alignment: the building blocks and components (Source: Heywood & Arkesteijn, 2018)

The framework implicitly suggests a flow through from *Understanding CRE Strategy* through CRE strategy creation and its implementation and includes some indicative feedback loops. It moves alignment theory away from the generic models favoured by previous researchers to a more universal approach and brings together both formulation and implementation, indicating a coherent approach to alignment.

Relevant insights from other business angles

Most CRE models do not reflect the current turbulent, uncertain, novel, and ambiguous business environment (Ramirez & Wilkinson, 2016). This is partially because of the date they were written and as discussed above, the failure to further develop existing models. In the nineties, it has been suggested that CRE should form an integral part of corporate strategy (Weatherhead, 1997) but this does not appear to have been advanced within alignment theory. Certain CRE alignment theories appear to treat CRE as if it is separate entity to the firm (e.g., Scheffer et al., 2006), and seemingly unaffected by other parts of the organisation or the corporate entity itself. The alignment framework of figure 1 includes some feedback loops which could be improved by more linkages between the blocks to reflect the prevalence of continual adjustment of corporate strategy along with the iterative and continual nature of strategic alignment (Mintzberg & Water, 1985). Between organisations there are differences in what is regarded as the important elements of strategy together with its process of creation (Mintzberg et al., 2009) which needs to be recognised. In the same way the consultation with other parts of the business (e.g., HR, Production, Finance) and the flow of decisions should be incorporated. This interconnectedness and complexity of the corporate entity has led to the suggestion that it might best be regarded as an ecosystem (Reeves et al, 2016). Such an approach might provide greater prominence to the constituent parts of the firm, such as CRE.

Regarding the subject of decision-making, at both an individual level and within business it is very extensive. What is clear is that several factors can significantly affect the process, including bias (e.g., Hammond et al., 1998) and the chaotic nature of the process (Cohen, et al., 1972). Efficient decision-making entails making commitments, but that creates tensions when agility is sought (Doz & Kosonen, 2008). Such is the importance of decision-making that it is possible to consider the value of a firm as the sum of the decisions made (Blenko et al., 2010). Within CRE it has been recognised that “to add value to the firm, CREM decision-making must be linked to the strategic decision-making level of the organisation” (Lindholm and Leväinen, 2006: 468). For example, risk should be included as a variable as in practice it features in decision-making. It should encompass risk for a specific activity and for the variance from a successful/predicted outcome. As a variable it has not been considered in alignment theories but has been identified as important to CRE decision-makers (Cooke et al., 2021a). Alignment models include an implicit assumption of rationality with a focus on the primary driver of shareholder wealth (e.g., Gibler & Lindholm, 2012). However, individuals are not always rational (Argyris, 1991) and their feelings and actions influence their decision-making (Hammond et al., 1998). In CRE there is limited research on this matter (Greenhalgh, 2008) and further evidenced research is needed.

Research into other business divisions has identified similar issues to those that CRE faces, including remoteness from the organisation’s centre, being regarded as a technical specialism, and lacking a coherent framework linking it to the corporate strategy. Within manufacturing, Brown & Blackmon (2005) anchored their research on the Resource-Based View (RBV) (Barney, 1991) of business theory, which emphasises the breadth of what resources comprise, including knowledge, and how the correct use of resources provides a strategic advantage. CRE shares these attributes, and it has been demonstrated how misalignment of CRE has an adverse effect on a firm (Cooke et al, 2019a). Consequently, any CRE alignment framework needs to include linkages and a capacity for dynamic alignment (Brown & Blackmon, 2005; Cooke et al, 2019a). Research into IT alignment to corporate strategy identified that small businesses are more agile (Luftman et al., 1993), which mirrors work on CRE and how smaller firms are more able to realign their portfolios and avoid a build-up of unwanted surplus space (Cooke et al, 2019b). The inhibitors of IT alignment included a lack of knowledge of business leaders on IT technical aspects, IT personnel lacked an understanding of business issues, and IT was generally regarded as a cost centre and neither an enabler nor driver of business value (Luftman & Brier, 1999). Alignment was identified as a complex, continual, and dynamic process, which takes considerable effort to sustain. Such traits can be identified for CRE, although the emphasis on cost reduction in CRE decision-making remains a significant influence (Stadlhofer, 2010). Consequently, the broader attributes of CRE need to be emphasised to decision-makers, through the likes of performance metrics related to business performance not just cost, and how unaligned CRE can have significant consequences for the business.

Discussion Proposed changes to the Framework

To simplify the discussion of the proposed amendments the revised framework is shown in Figure 2 prior to the discussion of the constituent parts. This next section discusses the context and nature of the proposed changes, initially broader comments and then each individual block is discussed. The changes can be classified into several groups including seeking consistency of terminology, a more cohesive and explicit approach to business theories, recognition of the dynamism of CRE, the chaotic nature of the business environment and decision-making, and the inconsistency of organisations and individuals.

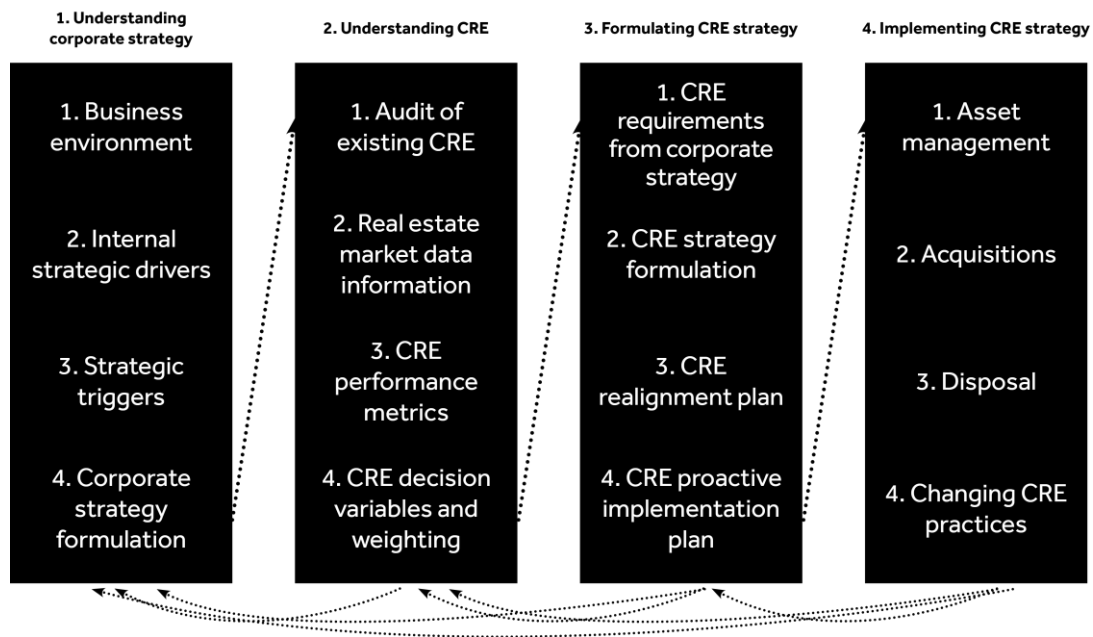


Figure 2 CRE alignment framework: building blocks and components (adapted from Heywood & Arkesteijn, 2018)

The original framework uses the term *real estate* whereas the use of *corporate real estate* or *CRE* is probably more suitable as it emphasises the occupier focus of the framework. The original has indicative feedback loops between some of the blocks, whereas the augmented version provides feedback loops between all blocks to reflect the iterative and emergent process that is involved. Similarly, the implicit flows between sub-blocks and between blocks are now explicit and numbered and showing a flow from the bottom of one block to the top of the next. This provides clarity that strategy formulation and implementation comprise a process that is iterative and emergent (Mintzberg & Water, 1985).

As in the original model, the flow through the four blocks moves from understanding the business and CRE (Blocks 1 and 2) to CRE strategy formulation (Block 3) and finally to CRE strategy implementation (Block 4). It is not a prescriptive flow but a logical progression that broadly replicates what happens in the real world. Therefore, it will reflect the workflow of the CRE Team. The changes to each block are discussed below, each section will commence with the changes to the labelling of the blocks.

Block 1 Understanding Corporate Strategy

The label changes are:

Business drivers and forces > Business environment

Internal strategic drivers > Internal strategic drivers

Strategic triggers > Strategic triggers

Corporate strategy (formation) > Corporate strategy formulation

The unpredictable business environment (Ramirez & Wilkinson, 2016) and shorter business cycles are not emphasised, nor that it has led business to consider TCA (McGrath, 2013) as a strategy. The title *Business drivers and forces* is replaced by the more holistic explicit term *business environment* to include those elements that directly or indirectly influence a business. The term *Force* is synonymous with the work of Michael Porter (1985), whereas *business environment* is a broader term used in more recent corporate strategy theories (e.g., McGrath, 2013) against which corporate strategy is formulated, albeit specific for each organisation. The acronym *STEEPLE* can be used to categorise the internal and external factors that impact the organisation, namely the social, technological, economic, environmental, political, legal, and ethical factors. These apply to the organisation and the sector(s) it operates in, importantly it needs to be recognised that each organisation is unique in its existing CRE and requirements. *Internal strategic drivers* represent the internal environment of the firm which influences decisions, including different business units and internal stakeholders. Strategic triggers

precipitate change and can be ad hoc or fixed. Both labels are unchanged from the original model. *Corporate strategy formulation* replaces the noun ‘formation’, the making or developing something, to ‘formulation’, to express something clearly, systematically, and precisely.

Block 2 Understanding CRE

The title of the block has been changed from a focus just on performance to the broader understanding of the CRE the firm has and reflects the explicit inclusion of CRE decision-making. Here the changed labels are:

Audit of existing real estate > Audit of existing CRE

Real estate market data/information > Real estate market data information

Assess the effect of CREM action – *deleted from this block*

New > CRE performance metrics

New > CRE decision variables and weighting

Assess the effect of CREM action is removed from Block 2 and forms part of Block 3 with the formulation of CRE strategy. A more logical flow would be to audit the existing portfolio (*Sub-Block 2.1*) and then directly apply market data before assessing the portfolio against various performance metrics. CRE performance metrics need to be meaningful for the firm and broader than just the costs per square metre (Haynes et al., 2017), hence measures such as profit per square metre, CRE as a proportion of total costs, total CRE liability against profit, etc, should be considered. A firm needs to know what CRE it has and how it performs irrespective of any change to the corporate strategy and the effect of rent reviews, cost changes, etc., together with internal issues (e.g., requests for workplace layout changes). When a new corporate strategy is determined the process of understanding the CRE portfolio in the context of that new strategy needs to be assessed. CRE data needs to be continually updated and should be more tightly focussed with benchmarking becoming a standalone item. Less obvious elements of data include the nature of the landlord for each property, including their general attitude and what the important drivers are for them (e.g., income or capital growth preferences). This will differ depending on whether they are a private individual, a property company, an institution, etc. In practice this is key to good planning and a successful implementation of a CRE strategy. *Real estate market data/information* now links *Audit of existing CRE* to *CRE performance metrics* bringing the real estate market into CRE performance assessment, instead of assessing CREM actions first and then turning to the market. Examples include current market value of freehold properties, the likely impact of rent reviews, potential demand for surplus space, etc. This provides real-world context for the CRE and mitigates a frequently cited criticism of performance metrics the process is backward-looking (e.g., Wrennall, 1999; Kennerley & Neeley, 2003). The use of market data can help make benchmarking a more relevant proactive tool.

It is essential that the impact of CRE on the business can be identified and measured. It forms the basis of future business and CRE decision-making as well as being a driver of CRE alignment. This is classed as *CRE Performance Metrics* and will include the likes of cost, accounting treatment of leases and owned property, along with turnover and/or profit per employee. Financial measures, including Cost, Cash and CAPEX show the direct consequences of realignment on the financial performance of the business and impact CRE decision-making process. Pfnür et al. (2021) created a framework of three mechanisms for CRE performance, namely operating, real estate and financial performance ranging from short to long term, that offers a basis for assessment.

Individual companies and individual decision-makers within those companies do not seek the same attributes and benefits (Cooke et al 2021b). Therefore, a new sub-block is added labelled *CRE decision variables and weighting*. It will allow the identification of those attribute and benefit variables that are important to the firm and/or the individual. Literature has identified that bias and the preferences of individuals influences decisions (Hammond et al., 1998), which is also true for CRE decisions (Mazzoral & Choo, 2003). By formalising what the preferences are of the firm, an objective framework is to facilitate decision-making. By explicitly stating its organisational preferences a company is not leaving it to individuals to choose.

Block 3 Formulating CRE Strategy

The term *Making real estate strategy* can also encapsulate implementation. It is replaced by the more precise term of *Formulating CRE strategy to reflect the clear division of formulation and implementation, which is Block 4*. Label changes are:

New> CRE Requirements from Corporate Strategy

CRE strategy (formation) > CRE strategy formulation

Strategy integration (alignment) > CRE realignment plan

Integrate corporate functions – *deleted from this block*

New> CRE proactive implementation plan

The original model does not have a clear step of identification of what is required by the firm of its CRE, identifying those needs is the explicit step prior to CRE strategy formulation. *Sub-Block 3.1 CRE requirements from corporate strategy* is introduced to extract from the corporate strategy the consequences and therefore requirements for CRE which will be translated into the CRE strategy. Which leads to the realignment and implementation plans, in *Sub-Block 3.2 CRE strategy formulation*, the change to formulation reflecting the same rationale as for the entire block. This sub-block synthesises the different corporate threads and CRE requirements that result. It is the link of the broad CRE requirements to the CRE strategy. It will incorporate considerations including timing, achievability, together with implementing operational benefits. Various CRE alignment models (e.g., Gibler & Lindholm, 2012) have adopted shareholder primacy as the key benefit sought from alignment, however, this has been shown to have inherent shortcomings (Stout, 2012). The benefits sought these days include financial stakeholders; risk reduction; impact on business metrics and motivational drivers (Cooke et al, 2021b). The term financial stakeholder extends beyond shareholders to include banks, financial institutions, suppliers, directors, and staff and creates a diversity of opinions and needs. This may well be the point that significant issues with the delivery of the CRE requirements envisaged in the corporate strategy are identified, such as the availability of space or the timeline for delivery. This illustrates the importance of a collegiate and iterative approach to the formulation and implementation of the CRE strategy. Recent research has identified that it is the C-Suite that determines CRE strategy, not the CRE Manager (Cooke et al, 2021a) and this must be reflected in the alignment process. Sub-blocks 3.1 and 3.2 will be ‘created’ by the C-suite with input from the CRE Team and will meld the needs of the business with the CRE in an iterative and emergent process (Mintzberg & Water, 1985). What is proposed should be challenged (and probably adjusted) by relevant parties, such as department heads, etc. The CRE strategy should not be an edict from the CEO, but a collegiate process finalised by a Board decision in accordance with corporate governance best practice. Within the original model *Strategy integration (alignment)* and *Integration corporate functions* are part of *CRE strategy formulation*. The former deals with aligning corporate and CRE strategies and the latter deals with how other functions/departments align to the CRE. Both are now integrated into the broader aspects of *Sub-Block 3.2 CRE strategy formulation*.

Following strategy formulation, planning is necessary on how the new CRE strategy is to be aligned and implemented. The authors propose that this comprises two parts, *Sub-block 3.3 CRE realignment plan* and *Sub-Block 3.4 CRE proactive implementation plan*. These are the precursors to implementation itself in *Block 4* and reflects the transition from CRE strategy formulation for the portfolio to tactical planning for each property. There appears to be a relative paucity of CRE literature on the change from strategy execution to tactical planning and these insights reflect broader business literature on the subject. “Strategic and tactical planning are integral parts of the same whole” (McGregor, 2000; 404), the former determines the primary objectives with policies, whereas the latter is the “detailed deployment of resources to achieve strategic plans” (Steiner 1969 in Schultz et al., 1987:37).

CRE realignment plan (Sub-Block 3.3) will ‘fill-in’ the strategy detail for the portfolio and look at the broader asset management considerations with which properties are no longer needed and what new ones are required. It is the interface between what the portfolio looks like now and what the new aligned portfolio will be. It is here where the degree to which the concept of CRE dynamic alignment (Cooke et al, 2019a) has been embedded within a portfolio will become visible. It is where appropriate lease structures, say in the form of a core and periphery portfolio categorisation (Gibson & Lizieri, 1999) will help facilitate realignment including the degree of CRE sought. Such an approach will take the

consideration beyond just freehold or leasehold options and consider other options of procuring space, including the likes of serviced space. Certain CRE types (e.g., offices) have a wide range of procurement options available, whereas others (e.g., manufacturing) have limited ones. The *CRE realignment plan* forms the nexus of CRE implementation and links the CRE Team with their internal clients, the various business units (e.g., HR, Finance, etc). That interface is crucial to ensure all the pertinent factors are considered, for example if a property is to be replaced the realignment will require an acquisition, internal fit-out, transfer of staff and possible disposal, all of which have consequences for staff (travel times etc.). The original model moves from strategy making to implementation in Block 4. Tactical issues are not considered, no doubt because previous models do not consider implementation, this may partially explain the lack of adoption in practice of alignment models. The *CRE proactive implementation plan (Sub-Block 3.4)* translates the *implementation plan* into the tactical decisions at property level, in effect a ‘game plan’ per property.

With military strategy it has long been recognised that no plan has any certainty beyond any encounter with the enemy (Moltke in Hughes, 1993), the same principle applies with CRE negotiations. After the first meeting with a landlord, tactical plans frequently need to be re-written, because all plans are derived from incomplete knowledge (Argyris, 1976) and people act inconsistently (Argyris, 1991). Such plans will be cognisant of the constraints imposed by the existing portfolio and business needs together with the required surveying skills, as “the key element for an effective strategy is not the solution per se but having an array of potentially effective solutions simultaneously in play” (Becker, 2001:31). Within this block will be the identification of specific issues for each firm for its CRE. These will include the specific location and space requirements, issues around broader corporate objectives such as sustainability, together with constraints around costs, etc.

Block 4 is Implementing CRE Strategy

The new labels are:

Actioning real estate intervention > Asset management

Actioning real estate intervention > Acquisitions

Actioning real estate intervention > Disposal

Actioning required CREM practices > Changing CRE practices

This block is frequently ignored or not fully developed in alignment models. Therefore, the three elements identified by Kämpf-Dern & Pfnür (2014) of asset management, acquisitions, and disposals have been incorporated as individual sub-blocks to provide the detail. The ordering reflects the fact that if an existing property can be adapted, physically and/or legally (such as length of lease) that is a generally a better solution than acquiring a new unit. Hence *Asset management* is first, the term covering both individual buildings and the portfolio. An occupier will need to look at the individual unit and the portfolio and, for some real estate sectors, it is an iterative process. Some literature touches upon implementation (e.g., Haynes et al., 2017) although as with most alignment literature tends to be office centric rather than encompassing all CRE types. Across the sub-blocks there is extensive detail to consider at the operational level, including the likes of the appointment of consultants through to change management (this is beyond the scope of this paper).

Sub-Block 4.1 Asset management in the context of CRE asset management literature is dominated by the impact CRE can have on the performance of the firm through the sale of owned properties. Such consideration ignores the underlying viewpoint that the value of CRE to a firm is what it brings to the operations, not its investment value (Kenley & Heywood, 2000). Therefore what needs to be considered are the likes of the own versus lease decision (Tipping & Bullard, 2007); company performance impact of ownership (Nappi-Choulet et al., 2009); comparison of ownership rates between countries (Laposa & Charlton, 2001); how stock market performance is affected by CRE (Lasfer, 2007; Seger & Pfnür, 2021); why owning CRE is poor management, (Graham et al., 2014); why lease flexibility generates low tenant satisfaction (Simms & Rogers, 2006); how location decisions influence both costs incurred, and revenues generated (Seger & Pfnür, 2021); along with broader considerations of adding value (e.g., Jensen, 2010 and Van der Voordt, 2017). For the latter the debate is whether value is added by an activity, although how value is defined is difficult to determine because it is a multi-dimensional concept. It may reflect improved productivity (de Vries et al, 2008) or an increase in the market value

of a freehold, or a reduction in property or operational costs. The impact of value can be short, medium, or long term, or a combination. It could reflect an improvement in profitability or shareholder value or both, as they are not synonymous for each other. More work is needed in the area to provide clarity and by separation between value added from CRE and from its management to ascertain the different impacts. That a firm realises a capital gain from a sale-and-leaseback transaction does not in itself constitute added value. The measure is not the comparison between the depreciated replacement cost (or book value) against what has been realised, nor is it going to be just achieving what the value is in the market generally. It will be creating something over and above that figure through something new. If that something new is say achieving consent for a development that was not expected that can be classed as added value. In the context of certain activities there is an ongoing cost to be considered from the asset management activity. For example, a sale-and-leaseback may release capital for investment elsewhere in the business but will increase the cash commitment the firm has by increasing rents payable, which with such a transaction will be for a ten-year period or longer. Research has focussed on benefits usually assessed in the short term. The long-term consequences need to be assessed and form part of the cost-benefit analysis, especially the impact on CRE agility. Therefore, adoption of a framework (e.g., Pfnür et al., 2021) may provide a more holistic approach to the assessment of added value.

If the existing portfolio cannot satisfy the strategy requirements the first step for occupiers is frequently to look for new premises, especially if the occupational model is through leasing and not owning. Owned property provides more options around adaptation and re-use, whereas leased properties have the constraint of the lease terms and the attitude of the landlord. Literature on *Sub-Block 4.2 Acquisitions* includes classic economic location theory (McCann & Shepperd, 2003); decision influences (Nunnington & Haynes, 2011); choice of location (Rothe et al., 2015); relocation decisions (Christersson & Rothe, 2012); site specific issues (Tuzel, 2010); sector specific acquisition (e.g., Oladokun, 2011) and the behaviour of decision-makers in an acquisition (Greenhalgh, 2008). The indication from research is that within small businesses decisions are made by individuals, but for larger firms the process is multi-faceted, multi-person, and has greater objectivity (Mazzoral & Choo, 2003). Nonetheless, it appears that irrespective of firm size “behaviour, personal preferences, priorities and perceptions of key individuals will influence the final outcome” (Greenhalgh, 2008: 123). The next sub-block, *Sub-Block 4.3 Disposals*, exiting unwanted property, literature on this includes the consideration of specific organisations (Avis & Dent, 2004; White, 1998); implementing break clauses (Cooke & Woodhead, 2008); strategies for disposal of owned CRE (Sraeel, 1993); strategies for sale-and-leaseback disposals (Louko, 2004); assessing how different lease terms influence the operation of CRE (Lizieri, 2003); and how break and expiry mechanisms operate (Crosby, et al., 2006).

For both acquisition and disposal, the amount of research has been relatively limited and a lot of that is now somewhat dated. A key area is the decision-making process itself, which needs to be a multi-level and an iterative process (Chiva et al., 2014). Work has generally been descriptive (e.g., Greenhalgh, 2008), with quantitative aspects examining specific issues (e.g., sale-and-leasebacks, Louko, 2004). There remains a lack of understanding of the acquisition and disposal processes and the key variables that are important for an occupier, understanding what the decision-makers are looking to achieve is key. CNET (Causal Network Elicitation Technique) (see Arentze et al., 2008) has been used for examining CRE disposals (Cooke et al. 2021a) and could help to provide a holistic view of the process of CRE decision-making.

In the original framework the final sub-block is *Actioning required CREM practices* because how a firm manages its CRE is important. CRE alignment is not exclusively about the physical space but also includes how a firm manages its CRE, that is an intangible resource (Heywood & Kenley, 2008). The proposal is to adjust the heading to *Sub-Block 4.4 (Changing CRE practice)* to reflect the change to existing management approaches. The literature on this is now dated and has considered different aspects of the subject, such as outsourcing of CRE management (Gibler & Black, 2004); an annual survey of CRE practices from 1993 to 2001 (Bon et al., 2003); and those that consider practices at a more strategic level (e.g., Kenley & Heywood, 2000). Anecdotally there would appear to be a move by the larger occupier organisations to outsource the bulk of their CRE management, primarily to a very small group of providers. This will impede opportunities to manage their CRE to make a competitive difference. This is an area with limited contemporary research, but one that needs further exploring too.

Conclusion and recommendations

This paper had several objectives. It is intended to assist in the migration from “disordered alignment theory” (Heywood & Arkesteijn, 2017: 144) to a framework that provides greater completeness and is simple to employ. As conceptual paper it aims to encourage more discussion, collaboration, and research on CRE Alignment. Heywood & Arkesteijn (2017 and 2018) have distilled previous alignment research which provides a platform for others to build upon, without needing to revisit each paper again. This paper seeks to continue the development process of CRE alignment theory, not by proposing a new theory, but further developing an existing one (Lizieri, 2003). It brings in research from outside the subject, especially from business and decision-making, and considers what has happened in practice with CRE alignment in the implementation phase (e.g., Cooke et al., 2019a). It is recognised that academic material on business is very large and there is only scope to consider some of the threads in this paper. There is an opportunity for a much more extensive research project on the crossover between the subjects.

There remains limited crossover between CRE practice and academia. A viable alignment framework could encourage greater collaboration and the testing of frameworks. Research on the subject has extrapolated from what has been seen in practice, but a large element is untested theory. To be relevant, models and frameworks need to be tested. Unlike research into real estate investment, CRE does not have the same high-level support within organisations. That is partly because those in the C-Suite are not from CRE backgrounds and that CRE is seen as a resource of the firm and therefore its details are confidential. The lack of connectivity and the confidentiality makes it hard to get participation in such longitudinal research. The more benefits that can be provided to CRE teams the more chance of co-operation. Working with firms on frameworks to improve CRE alignment and decision-making may help to counter the negative view at the top.

Business volatility over the last two decades and the consequential issues around CRE for organisations suggests that now might be an ideal time for collaboration with business. The catastrophic consequences of wrong CRE decisions can be seen in the different sectors. For retail in the high level of failures of retailers (e.g., Debenhams (BBC 2020)) and in the office sector high levels of office vacancy. The application of a viable framework and decision-making matrix should mitigate the effects of individual personal considerations in decision-making (Greenhalgh, 2008) and reduce the risk to the firm. That should lead to better foresight and align CRE with corporate strategy creating better returns (Kunc & Moorcroft, 2010). CRE has been stifled by the cost minimisation focus which has not only undermined the view of CRE as a strategic resource but also led to an emphasis on the very short term (i.e., annual, or even quarterly results). That focus rather than the total commitment from CRE has skewed metrics and perception.

If CRE is treated as a strategic resource with dynamic alignment incorporated into the portfolio, organisations would be better placed to react and manage the uncertainty and turbulence which characterised the business environment of this century. There is ample evidence that those organisations that had not moved to an agile flexible operation were those that were most adversely affected through 2020 and 2021 with the Covid-19 pandemic (Cooke et al, 2022). What we have seen is the need to incorporate alignment as a “continuous journey of transformation” (Luftman et al., 1993) and remove the historic view that CRE alignment is a one-off process.

In proposing additions to the framework, several areas have been identified that would benefit from further research. This includes more work to identify pertinent ideas and material from outside the immediate CRE environs. For example, future research on risk in alignment models would be a valuable addition. Also, an investigation into how firms undertake the whole process of alignment from start to finish and how their approach compares to the theoretical models that have been developed, would be worthwhile. This is also important in trying to improve the academic-practice interface for CRE. Allied to this would be considering how firms view the business environment in the context of CRE alignment to understand the extent and depth that various factors are explored for the alignment process. Is it superficial or does it extend into details of culture, etc. and what techniques are used to undertake this. An important research area to explore is the extent to which any firm achieves CRE alignment. Do even, or especially the world’s largest firms, such as Apple or Amazon, achieve a state of balance? Or is CRE alignment a continual as organisations respond to changes in world politics, technology, etc.

and therefore the process is of *dynamic alignment*? Research to explore this issue could throw up some useful insights.

What is put forward is the suggestion of the organic development of the subject and a move away from insularity of CRE researchers that Lizieri (2003) identified and a wider dialogue on CRE alignment and all the aspects linked to that. The authors hope that this paper will help generate debate and that research.

References

- Arentze, T.A., Dellaert, B.G.C., & Timmermans H.J.P. (2008) Modeling and measuring individuals' mental representations of complex spatio-temporal decision problems. *Environment and Behaviour* 40.6: 843-869
- Argyris, C. (1976) Single-Loop and Double-Loop Models in research on Decision-making. *Administrative Science Quarterly* 21.3: 363-375
- Argyris, C. (1991) Teaching Smart People How to Learn, *Harvard Business Review* 4.2: 4-15
- Avis, M. & Dent, P. (2004). The strategic management of surplus property in the NHS. *Property Management* 22.4: 303-317.
- Barney, J. (1991) Firms Resources & Sustained Competitive Advantage. *Journal of Management* 17.1: 99-119
- BBC (2020) What went wrong at Debenhams *BBC News 1 December 2020*. (Sourced 13th March 2023 - <https://www.bbc.co.uk/news/business-55144922>)
- Becker, F. (2001). Organisational agility and the knowledge infrastructure *Journal of Corporate Real Estate* 3.12: 28-37.
- Beckers, R., Dewulf, G. & Van der Voordt, T. (2015), Aligning corporate real estate with the corporate strategies of higher education institutions. *Facilities* 33; 7/8
- Beer, M., Voelpel, S., Leibold, M. and Tekie, E. (2005): Strategic Management as Organizational Learning: Developing Fit and Alignment through a Disciplined Process *Long Range Planning* 38.1:445-465.
- Blenko, M.W., Mankins, M.C. & Rogers, P. (2010) The Decision Driven Organisation, *Harvard Business Review* June 2010: 54-62.
- Bon, R., Gibson, V. & Luck, R. (2003). Annual CREMRU-JCI survey of corporate real estate practices in Europe and North America: 1993-2001 *Facilities* 20.11/12: 357-373
- Brown, S. and Blackmon, K. (2005). Aligning Manufacturing Strategy and Business-Level Competitive Strategy in New Competitive Environments: The Case for Strategic Resonance, *Journal of Management Studies* 42.4: 793-815
- Business Roundtable (2019) Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' (<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>) Accessed 7th June 2023
- Chiva, R. Ghauri, P. & Alegere, J. (2014). Organisational Learning, Innovation, and Internationalisation: A Complex System Model. *British Journal of Management* 25: 687-705
- Christensen, C.M., Raynor, M. & Verlinden, M. (2001) Skate to where the money will be *Harvard Business Review* November 2001: 73-81
- Christersson, M. & Rothe, P. (2012). Impacts of organisational relocation: a conceptual framework *Journal of Corporate Real Estate* 4.4: 365-374.
- Cohen, M.D., March, J.G and Olsen, J.P (1972) A Garbage Can Model of Organizational Choice. *Administrative Science Quarterly* 17.1: 1-25
- Cooke, H., Appel-Meulenbroek, R. & Arentze, T. (2019a). Adjustment of Corporate Real Estate During a Period of Significant Business Change *International Journal of Strategic Property Management* 23.3: 171-186
- Cooke, H., Appel-Meulenbroek, R. & Arentze, T. (2019b). Is the Much-Discussed Agility of Corporate Real Estate Visible in Practice? An Empirical Study of the relationship between Business Metrics and Surplus Property *International Journal of Strategic Property Management* 23.4: 213-229
- Cooke, H., Appel-Meulenbroek, R. & Arentze, T. (2021a) Lifting the Lid on the Black Box of Corporate Real Estate Decision Making; dealing with surplus property *Journal of European Real Estate Research* 14.1: 100-119
- Cooke, H., Appel-Meulenbroek, R. & Arentze, T. (2021b) Inhibitors & Facilitators of Corporate Real Estate Dynamic Alignment *Journal of European Real Estate Research* 14.2: 274-295
- Cooke, H., Fiorentino, S., Harris, R., Livingstone, N. & McAllister, P. (2022) Corporate occupiers' attitude to *flex space* in the post-Covid environment *Journal of Property Investment & Finance*
- Cooke, H. & Woodhead, S. (2008). Break strategy – the key to breaking out. *Journal of Corporate Real Estate* 10.2: 110 – 120.

- Crosby, N., Hughes, C. & Murdoch, S. (2006) Exit Strategies for Business Tenants *Journal of Property Research* 23.3: 215-235
- De Vries, J.C., De Jonge, H. and Van der Voordt, T.J.M. (2008) Impact of real estate interventions on organisational performance. *Journal of Corporate Real Estate* 10.3:208-233.
- Doz, Y. L., and Kosonen, M. (2008) Creating and Testing Workplace Strategy, *California Management Review* (Spring 2008) 50.3: 95-118.
- Gibler, K.M. and Black, R.T. (2004), "Agency Risks in Outsourcing Corporate Real Estate Functions". *Journal of Real Estate Research*, 26.2: 137–160
- Gibler, K. M., & Lindholm A-L. (2012) A test of corporate real estate strategies and operating decisions in support of core business strategies, *Journal of Property Research* 29.1: 25-48.
- Gibson, V. & Lizieri, C.M. (1999) New business practices and the corporate property portfolio: How responsive is the UK property market? *Journal of Property Research* 16.3; 201-218
- Graham, J.G., Galbraith, C. & Stiles, C. (2014) Real estate ownership and closely-held firm value *Journal of Property Investment & Finance* 32.3: 229-243
- Greenhalgh, P. (2008) An Examination of Business Occupier Relocation Decision Making: Distinguishing Small and Large Firm Behaviour *Journal of Property Research* 2.2: 107-126
- Hammond, J.S., Keeney, R.L. & Raffa, H. (1998) The Hidden Traps of Decision Making. *Harvard Business Review* Best of HBR 2006: 1-10
- Haynes, B., Nunnington, N. & Eccles (2017) *Corporate Real Estate Asset Management: Strategy and Implementation*. 2nd Edition Oxford: EG Books.
- Heywood C. & Arkesteijn, M. (2017) Alignment and theory in Corporate Real Estate alignment models. *International Journal of Strategic Property Management* 21.2: 144-158
- Heywood C. & Arkesteijn, M. (2018) Analysing fourteen graphical representations of corporate real estate alignment models. *Journal of Corporate Real Estate* 20.1: 16-40
- Heywood C. & Kenley R. (2008) The sustainable competitive advantage model for corporate real estate, *Journal of Corporate Real Estate* 10.2: 85-109.
- Hughes, D.J. (ed.) (1993) *Moltke on the Art of War: selected writings* New York: Presido Press
- Jensen, P.A. (2010), "The facilities management value map: a conceptual framework", *Facilities*, Vol. 28 Nos 3/4, pp. 175-188.
- Jensen, P.A., and Van der Voordt, T.J.M., (2017) *FM and CREM as Value Drivers* Abingdon: Routledge
- Joroff, M. & Becker, F. (2017) Exploiting change and uncertainty to drive corporate value, *The Leader* March 2017: 32-35.
- Kämpf-Dern, A. & Pfnür, A. (2014). Best practice, Best Model, Best Fit. *Journal of Corporate Real Estate* 16(2), 97-125.
- Kenley, R. & Heywood, C. (2000) Corporate real estate management practice: contrasts between financial and service provision priorities in corporate and government organisations. 16th Annual ARCOM Conference 6-8 September 2000, Glasgow Caledonian University
- Kennerley, M. & Neeley, A. (2003) Measuring performance in a changing business environment. *International Journal of Operations & Production Management* 23.2: 213-229
- Kim, W.C. and Maugborgne, R. (2015) *Blue Ocean Strategy* (Expanded Edition). Boston: Harvard Business School.
- Kunc, M.H. & Morecroft, J.D.W. (2010) Managerial Decision Making and Firm Performance under a Resource-Based Paradigm *Strategic Management Journal* 31.11: 1164-1182.
- Laposa, S. & Charlton, M. (2001). European versus US corporations: A comparison of property holdings *Journal of Corporate Real Estate* 4.1: 34-47
- Lasfer, M. (2007) On the Financial Drivers and Implications of Leasing Real Estate Assets: The Donaldsons-Lasfer's Curve, *Journal of Corporate Real Estate* 9.2: 72-96.
- Lindholm, A-L. and Leväinen, K.I. (2006) A framework for identifying and measuring value added by corporate real estate. *Journal of Corporate Real Estate* 8.1: 38-46.

- Lizieri, C.M. (2003) Occupier requirements in commercial real estate markets. *Urban Studies* 40:5-6: 1151-1169
- Louko, A. (2004). Competitive advantage for operational corporate real estate disposals *International Journal of Strategic Property Management* 8.1: 11-24
- Luftman, J.N., & Brier, T. (1999) Achieving and sustaining Business-IT alignment *California Management Review* 42.1: 109-122
- Luftman, J.N., Lewis, P.R. & Oldack, S.H. (1993) Transforming the enterprise: The alignment of business and information technology strategies. *IBM Systems Journal* 32.1: 198-221
- Mazzoral, T. & Choo, S (2003) A study of the factors influencing the operating location decisions of small firms *Property Management* 21.2: 190-208
- Mccann, P & Sheppard, S (2003) The Rise, Fall and Rise Again of Industrial Location Theory *Regional Studies* 37.6-7: 649-663
- McGrath, R.G. (2013) *The End of Competitive Advantage*. Boston: Harvard Business Review Press.
- McGregor, W. (2000) Preparing for an uncertain future *Facilities* 18.10/11: 402-410
- Mintzberg, H. & Water, J.A. (1985) Of Strategies, Deliberate and Emergent, *Strategic Management Journal* 6.3: 257-272.
- Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009) *Strategy Safari* (Second Edition) Harlow: FT Prentice Hall.
- Nourse, H.O. & Roulac, S.E (1993) Linking real estate decisions to corporate strategy *The Journal of Real Estate Research* 8.4: 475-494
- Nunnington, N. & Haynes, B.P. (2011) Examining the building selection decision-making process within corporate relocations *Journal of Corporate Real Estate* 13.3: 247-260
- Park, A. and Glascock, J. (2010) Corporate Real Estate and Sustainable Competitive Advantage, *Journal of Real Estate Literature* 18.1: 1-19.
- Pfnür, A., Seger, J., & Appel-Meulenbroek, R. (2021). Corporate real estate management and companies' success: empirical evidence for a conceptual framework. *Journal of Corporate Real Estate* 21.4: 243-262
- Porter, M.E. (1985) *Competitive Advantage*. New York: Free Press (Extended Edition in 1998 of the 1985 Original).
- Ramirez, R. & Wilkinson, A. (2016) *Strategic Reframing: The Oxford Scenario Planning Approach*. Oxford: Oxford University Press
- Reeves, M, Levin, S & Ueda, D. (2016) The Biology of Corporate Survival, *Harvard Business Review* Jan-Feb 2016: 47-55.
- Rothe, P., Heywood, C., Christersson, M. & Sarasoja, A-L. (2015) Office relocation management in Finland – challenges and service opportunities. *Property Management*, 33.4: 348-36
- Rumsfeld 2002 Rumsfeld, D (2002) US Department of Defense Briefing
- Scheffer, J.J.L, Singer, B.P and Meerwijk, M.C.C Van (2006) Enhancing the contribution of corporate real estate to corporate strategy, *Journal of Corporate Real Estate* 8.4: 188-197.
- Schultz, R.L., Slevin, D.P. & Pinto, J.K. (1987) Strategy and Tactics in a Process Model of Project Implementation. *Interfaces* 17.3: 34-46
- Seger, J. & Pfnür, A (2021) The impact of structural changes on corporate real estate ownership: evidence from Germany *International Journal of Strategic Property Management* 25.1: 1-16
- Simms, C. & Rogers, B. (2006) The significance of flexibility in improving return on property investment: the UK perspective *Facilities* 24.3-4: 106-119
- Srael, H. (1993) Strategies to get rid of surplus property *Facilities Design & Management* 12.8: 31
- Stadlhofer, G. (2010) Corporate real estate performance: Contribution to core business competitiveness at global pharmaceutical enterprises. *Journal of Corporate Real Estate* 12(2), 96-116.
- Stout, L.A. (2012). New thinking on Shareholder Primacy. *Accounting Economics & Law* Vol 2.2 (Published online <https://doi.org/10.1515/2152-2820.1037> accessed 31 January 2020)
- Then, D.S.S. & Tan, T.H (2013) *Facilities Management and the Business of Managing Assets* Abingdon: Routledge

- Tipping, M., and Bullard, R.K. (2007) Sale and Leaseback as a British Real Estate Model, *Journal of Corporate Real Estate* 9.4: 205-217.
- Trego, B.B. & Zimmerman, J.W. (1980). *Top Management Strategy: What It Is And How To Make It Work*. New York: Simon & Schuster
- Tuzel, S. (2010). Corporate real estate holdings and the cross-section of stock returns *The Review of Financial Studies* 23.6: 2268-2302
- Van der Voordt, T.J.M. (2017) Facilities management and corporate real estate management: FM/CREM or FREM? *Journal of Facilities Management* 15.3: 244-261
- Weatherhead, M. (1997) *Real Estate in Corporate Strategy*. Basingstoke: Macmillan Press Ltd.
- White, A.D. (1998) Corporate real estate strategies: Managing the delivery of optimum solutions *Journal of Corporate Real Estate* 1.1: 64-74.
- Wrennall, W. (1999), "Facilities design for an integrated structure", *Facilities* 48.4: 123-9