Corporate Real Estate and Sustainable Competitive Advantage

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Abstract

This paper extends the growing literature on the role of corporate real estate (CRE) within the corporate strategy context and addresses the need to identify the degree to which CRE can be classified, and ultimately more efficiently exploited, as a strategic enterprise resource. The themes covered include identifying the underlying goal of corporate strategy as producing and sustaining competitive advantages; defining resources as strategic when they create firm-level entry barriers through isolating mechanisms; and identifying the criteria for determining CRE as a strategic, rather than purely operational, enterprise resource.

This paper focuses on the proper classification of corporate real estate (CRE) as an enterprise resource within the strategic management context. In their recent article, Ali, McGreal, Adair, and Webb (2008) provide an up-to-date conceptual review of the existing literature on CRE, reviewing the development in the field of CRE research and the evolution of the role of CRE through the past two decades. The most recent effort in CRE research, as the authors highlight, has been in the growing recognition of CRE as a strategic enterprise resource and the importance of evaluating CRE within the strategic management context.

This paper contributes to that effort by developing a strategic management framework to address the need to identify the degree to which CRE can be classified, and ultimately more efficiently exploited, as a strategic enterprise resource. Under the framework, CRE is categorized into three resource groups: (1) commodity, (2) operational, and (3) strategic. In addition, this framework sets forth the necessary conditions for classifying strategic enterprise resources in accordance with the existing strategy literature and applies them to CRE. As presented in the third section of this paper, these conditions are met in situations where the firm successfully combines the unique characteristics of real estate (heterogeneity, locational differences, "lumpiness" of investment, and the necessary skills for development and management) with the CRE relevant isolating mechanisms to create firm-level barriers to entry.

Corporate Strategy and Sustainable Competitive Advantage

Corporate strategy, and in particular the resource-based view of the firm, provides the heretofore most developed analytical framework to properly consider CRE as an enterprise resource. Rooted in the economic concepts of entry barrier, imperfect competition, and firm heterogeneity, corporate strategy as a field has enabled

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companies to develop and exploit sustainable competitive advantages by finding appropriate matches between environmental conditions (industry-structure view) and organizational resources (resource-based view) (Penrose, 1959; Chandler, 1962; Ansoff, 1965; Andrews, 1971; Porter, 1980).

According to the resource-based view of the firm, regardless of industry, profitable firms possess unique resources or capabilities that enable them to create and deliver more economic value than their competitors and thereby achieve competitive advantage (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Grant, 1991). What is more important than simply achieving competitive advantage, however, is finding a way to sustain it, since competition will cause the producer's profit to erode. The source of sustainable competitive advantage lies in what is unique and embedded in its internal resources, which allows the firm to earn economic rents or above-normal profits (Grant, 1991; Hamel, 1991). Pure operational efficiency cannot sustain the creation process of superior economic value or competitive advantage since competitors could immediately copy and implement such processes (Porter, 1985). Hence, in his article "What is Strategy?" Porter (1996) stressed the importance of understanding that pure operational effectiveness is not strategy.

At the heart of corporate strategy, therefore, is achieving sustainable competitive advantage through the long-term build up of firm-specific resources that are distinctive and difficult to imitate (i.e., strategic resources) (Barney, 1991; Grant, 1991; Amit and Schoemaker, 1993). It is this unique set of strategic resources that are developed over time that eventually lead to sustained out-performance for the firm (Hamel and Prahalad, 1994). Much attention has focused, therefore, on the characteristics of advantage-creating resources. According to Barney (1991), strategic resources must have four attributes: they must be valuable, rare, imperfectly imitable, and strategically unique.

Rumelt (1984a) coined the term "isolating mechanisms" to refer to the processes in which strategic resources can function as barriers to entry at the firm level rather than at the industry level. As entry barriers block new entrants from competing with the incumbents at the industry level, isolating mechanisms deter other firms, at the firm level, from competing and eroding away the extra profits that could be gained from a firm's competitive advantage. Therefore, strategic assets are highly valuable and are necessary for a competitive advantage to be sustainable.

From the mid 1970s, strategy researchers began studying the strategic and performance implications of variables relating to organizational resources, such as capital (Bidwell and Kasarda, 1975; Schoonhoven, 1981) or labor (Gupta, 1984; Gupta and Govindarajan, 1984). Together with capital and labor, CRE has traditionally been regarded as one of three basic types of organizational resources (Ansoff, 1988) and refers to tangible fixed assets, such as land and buildings that are owned for operational purposes.

Strategy literature, however, has largely ignored CRE as a topic of research. As physical assets are generally regarded as a non-specific factor of production, strategy researchers have dismissed CRE from consideration as a possible source of sustainable competitive advantage and as a strategic enterprise resource. In response, the CRE researchers have argued that CRE should be considered a strategic corporate asset with more than purely operational implications.

Corporate Real Estate

Since CRE is inherently multi-dimensional and cross-functional in supporting core business activities, academic researchers have tackled the topic of CRE from diverse angles, and have drawn upon concepts and theories from a variety of disciplines—economics, finance, architecture, management, organizational behavior, and marketing, among others.

The genesis of CRE research can be traced to the early 1980s when researchers began to highlight the significant levels of CRE ownership among companies and the potential impact of CRE on business performance (Zeckhauser and Silverman, 1983; Veale, 1989; Currie and Scott, 1991). Corporate real estate has traditionally been thought of as a tangible asset of a company with a book value often based on the market value of land and replacement cost of improvements. Given the illiquid and capital-intensive nature of real estate, traditional CRE research has simply called for corporate managers to pay more attention to their CRE portfolios as they would to other organizational resources (Bell, 1987; Nourse, 1990; Nourse and Roulac, 1993; Rodriguez and Sirmans, 1996). Several empirical studies have looked at the potential effects of the management, organizational form, and level of ownership issues of CRE on the performance of the firm.

Impact of CRE Management on Firm Performance

In testing for agency cost associated with management decisions concerning CRE, Alli, Ramirez, and Yung (1991) have found that, on average, announcements of headquarters relocation experience a positive abnormal return although the reaction varies across firms. On the other hand, Chan, Gau, and Wang (1995) found no significant relationship between the market reaction to relocations and a company's relative level of cash flow. Ghosh, Rodriguez, and Sirmans (1995) have also examined headquarters relocation announcements that appear to be motivated by managerial self-interest, which showed a negative market reaction to the relocation announcement. However, relocations that appear to be cost saving demonstrated a positive market reaction.

Following from the hypothesis that shareholder wealth would be positively affected if there is a change in the top real estate management with implications of better future management efficiency, McIntosh, Rogers, Sirmans, and Liang (1994) looked at the relationship between a REIT's stock returns and top management changes, and provided evidence of an inverse relationship between the probability of a management change and a REIT's recent stock price performance. Similarly, Rodriguez and Sirmans (1996) have studied shareholder wealth effects of top real estate management change. Contrary to the idea that top real estate management change signals a more efficient future real estate management, the authors have found that, on average, firms that announce the turnover of real estate managers experience a significantly negative market reaction.

Impact of CRE Organizational Form on Firm Performance

Several other studies have tested the performance implications of CRE organizational form on firm performance. An early empirical study of the stock price reactions to CRE spin-offs is by Hite, Owers, and Rogers (1984), who showed a 5.7% average share price increase on spin-off announcements, using a sample that covered the period 1962 to 1982. They also found that the stock market reaction of spin-offs by non-real estate companies was significantly larger (9.1%) than that of real estate companies. Rutherford and Nourse (1988) showed that even a formation of a CRE unit inside a corporation is, in general, also associated with positive gains to shareholders. Rutherford and Stone (1989) explained that corporations forming wholly owned subsidiaries indicated active resource management and a move toward turning CRE department into a profit unit from a cost unit.

Glascock, Davidson, and Sirmans (1991) studied the acquisition and disposition of real estate assets by non-real estate firms from 1981 through 1986 and found no abnormal performance associated with the buyers of real estate assets and only weak evidence of excess returns for sellers. They argued that unlike direct asset sales, which do not affect the organizational forms of the company, spin-offs and creation of CRE units show a change in organizational form that signal efficiency gains. On the other hand, Rutherford (1990) and Slovin, Sushka, and Polonchek (1990) showed positive price reactions to the announcement of sale-leasebacks of real estate. It is argued that the sell-offs provide true information about real estate values and property costs since corporate property is held at historic cost. However, unlike in the cases of real estate disposals, it is difficult to assess whether the positive effects of sale and leasebacks can be largely attributable to real estate or just assets in general as a consequence of corporate restructuring.

Impact of CRE Ownership Level on Firm Performance

Empirical studies on the impact of CRE holdings on firm performance have been investigated by Cheong and Kim (1996), Deng and Gyourko (2000), Seiler, Chantrath, and Webb (2001), Liow (2004), and Brounen and Eichholtz (2005). Cheong and Kim (1996) examined the relationship between increases in real estate prices and the value of non-real estate firms in Korea using a yearly cross-sectional test for the period of 1987 to 1991. The results indicated that the proportion of a firm's real estate holdings to total assets had no significant impact upon firm value. Deng and Gyourko (2000) analyzed a sample of 718 companies in non-real estate industries for the period and reported that high CRE ownership levels were associated with negative stock performance for firms with high betas. Seiler, Chantrath, and Webb (2001), on the other hand, tested for the diversification benefits of CRE ownership based on modern portfolio theory. They examined the effects of percentage of real estate holdings to the firm's systematic risk and risk-adjusted returns. They used a sample of 80 firms from 1985 to 1994 and found no evidence of diversification benefits of holding significant amounts of CRE. Liow (2004) examined the impact of CRE ownership on the stock market performance of non-real estate firms in Singapore. Similar to Seiler, Chantrath, and Webb (2001), Liow reasoned that if CRE is a good diversifier then non-real estate firms with significant property holdings should provide a higher risk-adjusted return. The results showed that the inclusion of CRE in a corporate portfolio is likely to result in higher systematic risk and lower abnormal return performance. Brounen and Eichholtz (2005) looked at the effects of CRE ownership on the risk and return characteristics of listed companies using a sample of 5,109 companies from 20 industries based in 9 countries during the period of 1990–2000. Although the effects were sector specific, they found an overall negative average relationship between CRE ownership and firm performance.

CRE and Strategy

Along with the rise of the field of corporate strategy, the ensuing CRE research efforts sought to better define and differentiate CRE from other real estate, finance and management research, and to properly analyze the role that CRE can play in a company's overall business strategy. The recent years have witnessed CRE researchers turning to the identification, analysis, and promotion of the 'strategic' aspects of CRE (Avis, Gibson, and Watts, 1989; Arthur Andersen, 1993; Duckworth, 1993; Nourse and Roulac, 1993; Weatherhead, 1997; Roulac, 2001; Edwards and Ellison, 2004).

However, at present, the body of work that promotes CRE as a strategic resource is faced with two clear limitations. First, the majority of CRE literature is replete with the term "strategy" to refer to potential ways in which better management of CRE could contribute to the "bottom-line" of the company. The fundamental problem with this line of argument is that despite the frequent invoking of the term 'strategy,' what is actually being addressed is mere operational efficiency. Although operational effectiveness is necessary for achieving superior performance, it does not equate to strategy within the field of strategic management (Porter, 1996). Therefore, CRE cannot be included in corporate strategy discussions unless CRE issues involve more than operational concerns. The strategic management literature makes a clear distinction between "operational" and "strategic" resources, and CRE cannot properly be considered a "strategic" resource unless the link between CRE and sustainable competitive advantage can be established.

The second limitation is the slow progress of the more recent attempt by CRE researchers to change the perception of CRE as a purely tangible asset to one that may also add value to the firm as an intangible asset. The concept of an intangible asset is based on the premise that sustainable competitive advantage results from the possession of relevant capability differentials, and the feedstock of these capability differentials is intangible resources (Hall, 1992). Intangible resources range from intellectual property rights to contracts, trade secrets, know-how, networks, brand value, organizational culture, and reputation (Hall, 1992). In the "knowledge economy," sustainable competitive advantage is created through knowing how to combine and coordinate resources and capabilities, including, as argued by CRE researchers, the physical environment in which the firm's activities are carried out.

The main obstacle faced by CRE researchers in the promotion effort of CRE as an intangible asset has been the lack of adequate assessment tools to measure the value-enhancing effects of the built environment. Taking a holistic approach, some have argued that performance systems such as the balanced scorecard would be an appropriate tool to understand the complex ways in which CRE impacts firm value. By examining the relationship between CRE and operative factors such as staff retention and recruitment, productivity and performance, customer satisfaction, brand value, and organizational culture assessment, CRE researchers have argued that the physical environment (including the design of the workplace) is an integral part of the competitive value creation process and therefore should be considered strategic for the occupying firm.

Although it is true that CRE plays an integral role in the buildup of the intangible resources of the firm, it is difficult, if not practically impossible, to isolate and demonstrate the value-adding effects of CRE. Moreover, a greater conceptual challenge is the fact that the added value created by the built environment is merely peripheral and derivative of the true underlying strategic value of traditional intangible resources such as branding and human capital. For this reason, even if the intangible qualities of CRE can be demonstrated, the impact caused by such qualities is based on generic and easily imitable aspects of CRE as an operational resource and does not qualify CRE as strategic.

Strategic Management Framework for Classifying CRE as an Enterprise Resource

Reflecting the need to identify the degree to which CRE can be classified as a strategic enterprise resource, in this section we present a new strategic management framework of classifications for CRE by integrating corporate strategy, sustainable competitive advantage, and the inherent characteristics of CRE, as shown in Exhibit 1.

The explanation of the new framework begins with the classical approach to corporate strategy in recognizing the need of each firm for strategy. In accordance with corporate strategy definitions, our framework also separates business policy formulation from policy execution and classifies the formulation of policies as *strategic* and execution (procedures) as *operational*.

When formulating the business policy or strategy, the firm must consider both the industry-structure view (opportunities and threats) and the resource-based view (strengths and weaknesses) to develop a product/market positioning strategy. Based on the available resource set, the firm's goal is to make a competitive product/service offering based on differentiation or cost advantage strategies.

Exhibit 1
New Framework Integrating Strategy, Sustainable Competitive Advantage, and Corporate Real Estate

Business Policy Formulation	Market Imperfections and Asymmetry	Performance Goal
Strategy	Product/Market positioning Sustainable competitive advantage	
Strategic Resources	Scarce, immobile, unique, and valuable Resources: Isolating mechanisms to create firm-level barriers to entry	
Strategic CRE	CRE specific isolating mechanisms: 1. Superior access to inputs and /or customers 2. First-mover advantage and spatial preemption 3. Procedural barrier to resource accumulation 4. Unique design	Sustained above-normal profit
Business Policy Execution	**Market Competition**	**Performance Goal**
Operations	Product/Service offering competitive advantage	Normal profit
Operational Resources	Differentiation/Cost advantages Competitive value proposition	+ Temporary above-normal profit
Commodity Resources	Economic value proposition	
Commodity & Operational CRE	Efficient implementation	

The performance goal for the firm is to make profit, which can be divided into *normal* profit and *above-normal* (*economic*) profit. As the competitive market forces will tend to reduce above-normal profit for the firm, the ultimate performance goal of corporate strategy is to sustain above-normal profit by exploiting market inefficiency. The performance goal of operations is efficiency in execution and to achieve competitive advantage over peer companies, which will produce normal and temporary above-normal profit.

Strategic resources are valuable, rare, imperfectly imitable, and unique resources that the firm seeks to build up over time so that the long-term goal of sustainable competitive advantage can be achieved. *Operational resources* allow the firm to produce competitively advantageous product/service offerings through differentiation or cost advantage strategies. Strategic resources are a subset of operational resources, yet they are distinct since the firm cannot achieve sustained outperformance without building up their strategic resources. In that way, we also divide the contribution of the resources into the achievement of *normal* profit and *above-normal* profit for the company. Accordingly, under this strategic management framework, we classify CRE into three categories: commodity CRE, operational CRE, and strategic CRE.

Commodity CRE

Commodity CRE refers to a category of real estate that is a non-specific factor of production, a generic physical input that is used purely as a means of production. In this category, CRE is equivalent to raw material, fuel, or unskilled labor. Commodity CRE has no unique or advantageous characteristics such that the possession of such resource could be the basis for competitive advantage. In other words, because there is no effective heterogeneity in commodity CRE, it cannot affect the firm's ability to achieve competitive advantage. From the firm's perspective, the most relevant management issue is the level of cost associated with either buying or leasing, along with maintaining, commodity CRE. As such, although commodity CRE possesses important operational significance, the management directive would be to reduce cost, with no preference for ownership of these sites and locations.

Examples of commodity CRE include factories, storage facilities, manufacturing plants, industrial buildings, and production facilities, with minimal significance as to even the location of the building (e.g., online retail store operator or call centers).

In the past, the strategy literature has categorized all of CRE as commodity CRE, which is an overbroad and inaccurate generalization. Although the neoclassical economists make no firm-level distinction among resources, corporate strategy as a field has always recognized heterogeneity at the firm, product, and resource levels. Furthermore, because real estate by nature is heterogeneous and unique in spatial occupation, it would be inaccurate to categorize all of CRE as a non-specific factor of production.

Operational CRE

Operational CRE refers to a type of CRE that is necessary for the firm to execute the business policy and to produce competitively advantageous product/service offerings to customers, but with operational implications only. Operational CRE allows the firm to make a competitive economic value offering so that the firm can achieve profit in the marketplace. Depending on the efficiency and effectiveness of execution and management, operational CRE supports the firm to achieve *normal*, or even *temporary above-normal profit.*

Most of the existing CRE literature is concerned with operational CRE, which can affect the company's profit level based on efficient alignment, management, and implementation of CRE strategies. However, there is a clear distinction between corporate strategy formulation and the role of operational CRE. Operational CRE allows a business to achieve business profits, but is not an integral part of the corporate strategy itself. For example, a chain of professional services company, a multi-branch financial services company, or even a vertically integrated discount retail company all need operational CRE to be provide competitive value offerings based on differentiation or cost advantage strategies. Operational CRE includes back offices, logistics centers, and research centers. Operational CRE allows the business to execute its strategy, but does not have all of the strategic resource qualities (valuable, rare, imperfectly imitable, and strategically unique), which could be the basis for the firm to establish and achieve sustained out-performance. As long as the operational CRE is managed efficiently in the execution of the business policy, it would fully serve its purpose. If operational CRE is managed comparatively more efficiently than peer companies within the industry, then the efficiency gains would allow the company to achieve above-normal profits, although only temporarily since other companies will quickly implement similar efficient management techniques. As the primary management directive would be to achieve operational efficiency, the firm would most likely prefer leasing rather than owning operational CRE.

Property divesture, property outsourcing, and sale and leaseback trends, for example, are cases where commodity and operational CRE are off-loaded to real estate specialists to create operational efficiency. Hence, real estate divestures could create positive gains for the company through cost savings, but only produce short-term above-normal profits at best.

The impact of CRE on corporate branding, staff retention and recruitment, productivity and performance, customer satisfaction, and organizational culture, are operationally relevant because these intangible but strategically valuable activities happen within the tangible confines of CRE. Yet the indirect enhancing value created by the built environment in which such intangible resources operate is a derivative value—the strategic value does not reside inherently in the CRE. It also means that the operational impact of the built environment is easily imitated by other competing companies. Therefore, despite all the claims of the "strategic" impacts of this type of CRE, under our framework they are classified as operational CRE.

In some sense, any additional CRE costs associated with enhancing the value of corporate branding, for example, can simply be considered additional marketing cost. As part of its marketing program, the company may choose to be located in a modern building in a central business district, to promote branding and status. As a way to attract highly-skilled employees, the company may invest in a more conveniently located but much more expensive office location. To increase the productivity of its employees, the company may choose to invest in more up-to-date workspace design. In all of these cases, the CRE itself is only a generic means to support the competitively advantageous nature of branding, human capital, and unique capability. The extra spending on the built environment only carries with it operational implications.

The only arguable exception, as discussed further below, is when the design of the CRE is so unique and protected by intellectual property rights such that it becomes inimitable. In this case, the CRE in essence is a piece of art, and the impact of such unique architecture on the firm would be considered a potential source of sustainable competitive advantage.

Strategic CRE

As mentioned, the goal of corporate strategy formulation is to achieve sustainable competitive advantage, which leads to sustained above-normal profit for the firm, through proprietary long-term build up of valuable, rare, hard-to-imitate, and distinctive resources.

More specifically, the processes in which these strategic enterprise resources can create barriers to entry at the firm level have been coined as "isolating mechanisms" within the strategic management literature (Rumelt, 1984b). Isolating mechanisms allow strategic resources to successfully exploit market inefficiency or asymmetry to deter other firms within the industry from competing and eroding away the extra profits that could be gained from a firm's competitive advantage (Rumelt, 1984b). These isolating mechanisms are endogenous and idiosyncratic advantages that create asymmetries in competition and increase the cost of strategic imitation.

Accordingly, strategic CRE refers to a category of CRE where the firm has successfully combined the unique characteristics of real estate (heterogeneity. locational differences, "lumpiness" of investment, and the necessary skills for development and management) with CRE-relevant isolating mechanisms to create firm-level barriers to entry. Under such situations, CRE would be a strategic resource to the firm—a source of sustainable competitive advantage with long term out-performance implications.

Reflective of the existing strategic management literature, we find four particular types of isolating mechanisms that are relevant and applicable to strategic CRE: (1) superior access to inputs or customers, (2) first-mover advantage and spatial preemption, (3) procedural barrier to resource accumulation, and (4) unique design.

Superior Access to Inputs or Customers

According to Ghemawat (1986), long-term proprietary access to inputs or customers is a sustainable competitive advantage. A firm that can obtain high value inputs or access to customers on more favorable terms than its competitors will be able to sustain advantages that cannot be imitated. As applied to CRE, this isolating mechanism is relevant for retailers who can secure superior access to customers through the ownership of their retail outlet stores. Another example would be companies that own ownership rights to scarce natural resources such as oil, water, or minerals. As for retailers, superior access to customers through more productive retail locations or the best distribution channels will be an advantage to attract customers and beat out competitors. To sustain the advantage over competitors, the firm can seek legal protection, such as long-term exclusive contracts, limited licenses to conduct business or planning permissions, and/or through the actual ownership of the locations.

Because valuable, rare, and imperfectly imitable resources such as CRE with superior access to inputs or customers are usually sold to the highest bidder, this means the firm can sustain its competitive advantage only when the resource can be secured, through ownership, at long term below-market prices. Otherwise, the economic profit derived from the strategic CRE will eventually pass on to the actual owner of the resource (i.e., the landlord through increased rents). It is therefore critical for the bidder to accurately assess the potential returns and the cost of acquiring such resources. If the estimates are inaccurate, the company may end up overpaying for such resources. Therefore, securing long-term below-market prices are achieved most often by fortune or foresight, when other firms are unable to recognize the potential value of those resources or could not exploit it for various reasons. In case of anchor tenants, their sheer ability to attract large numbers of customers often allows them to negotiate and secure long-term below market prices to superior locations through leases rather than actual ownership of the CRE.

As for superior access to natural resources, the sustainable competitive advantage is quite self explanatory. In either case, once the right over that protected real estate resource is secured, it creates an isolating mechanism, a firm-level entry barrier that allows the firm to achieve sustainable competitive advantage. It is with this paradigm that strategic CRE needs to be assessed since CRE inherently is the primary source of such an isolating mechanism and the resulting strategic advantage.

First-Mover Advantage and Spatial Preemption

The theory of first-mover advantage refers to the ability of pioneering firms to earn positive economic profits. This advantage arises through some asymmetry that is generated by the pioneering firm through some unique resource, foresight or fortune, which enables the firm to gain a head start over rivals. Once this asymmetry is generated, various mechanisms allow the pioneering firm to continue to exploit its position.

The theory of spatial preemption was developed and discussed by Prescott and Visscher (1977), Schmalensee (1978), Rao and Ruttenberg (1979), and Eaton and Lipsey (1979, 1981). One of the ways the first mover may exploit its position is to deter entry and gain advantage through strategies of preempting rivals through the acquisition of scarce physical assets, including physical space. The basic argument is that through spatial preemption, the first-mover may establish positions in geographic space such that latecomers find it unprofitable to occupy the alternative, leftover spaces. If spatial preemption can be achieved, then the later entrants will have a relatively more expensive or less attractive position and under-perform relative to the first mover (Hauser and Shugan, 1983; Lieberman and Montgomery, 1988). Economists generally approach the topic of first-mover advantage from the perspective of sequential market entry by firms or business units, and offer explanations as to why a first mover might possess competitive advantage using entry barriers (Lane, 1980; Nti and Shubik, 1981).

In many markets there is room for only a limited number of profitable firms and the first mover can often select the most attractive niches. With foresight or leverage, the first mover can negotiate for space at prices that will create economic profit for the firm. The subsequently entering firms may not be able to secure attractive enough space at prices that will allow them to make a profit. An obvious example of first-mover advantage and spatial preemption is in the case of giant discount retailers such as Walmart or Tesco, opening stores in small, rural communities in which no other entering competitors could attract a remaining market share large enough to be profitable. Furthermore, often in small cities, planning permission and/or a business license is not granted to two such stores in close proximity. As a result, many large retailers have often been criticized for their practice of "land banking": deterring other stores from coming into towns by buying up land and gaining planning permission, even though they do not actually end up building a store for a long period of time. Under most circumstances, ownership of such strategic CRE allows first movers to spatially preempt and create an entry barrier high enough to deter other competitors.

Procedural Barrier to Resource Accumulation

Dierickx and Cool (1989) identify three major characteristics related to the procedural difficulty in imitating a business's accumulated resource stock: time compression diseconomies, resource mass efficiencies, and interconnectedness of resource stock. Time compression diseconomies refer to the accumulation of certain advantageous resources for a long period of time, by a company that has built a quality business using a proven business model. Such a source of competitive advantage cannot be imitated by competitors within a short period of time. Mass efficiencies refer to an accumulated stock of resources that can serve as the basis for easier buildup of additional resources. This type of advantage implies the difficulty competitors have in catching up quickly due to the length of time it takes to accumulate critical levels of resources. Interconnectedness of resource stock acts as a barrier to imitation when some firms are unable to acquire complementary resources that are necessary to compete in the market. For example, lack of access to distribution channels can severely hamper competition.

Real estate as a resource is notoriously "lumpy" and difficult to accumulate. When the firm builds up a critical mass of quality CRE, it often serves as base upon which additional real estate can be acquired. As location is critical for retail performance, it usually takes a long period of time for a company to build up a good portfolio, which cannot be quickly matched by a new entrant into the market. Competitive advantages can be expected to lead to superior financial performance in the market for an extended period of time.

The three isolating mechanisms discussed above are particularly relevant for the retail industry since superior access to customers, spatial preemption, and procedural barriers to quality retail CRE accumulation are significantly related to long-term performance. To be able to capture and control scarce, high quality retail locations, most retail chains highly prefer to own, rather than lease, these types of strategic CRE assets (Nourse, 1990). Especially because of high customer switching costs, retail chain stores would prefer to control the value generated by the business through goodwill as result of being in a good location for a long time. Lack of ownership undermines the sustainability of strategic CRE, as part of the value generated by the business would be extracted by the lessor instead of being captured completely by the company. As such, ownership allows the company to "lock-in" the sustainable competitive advantage of the strategic CRE.

Unique Design

It is well established within the strategic management field that intellectual property rights are strategic resources (Hall, 1992). Although CRE is rarely connected to intellectual property, the physical environment of companies very often does represent the ethos and the identity of the organization (O'Mara, 1999). Under certain circumstances, however, the relationship between CRE, a unique set of designs, and company identify becomes so inseparable that CRE itself can be considered to possess valuable, rare, imperfectly imitable, and strategically unique qualities. This is the case when the design of the CRE achieves an art form, typically found in museums, concert halls, and special theme parks. The designs of the Guggenheim Museum in Bilbao, the Getty Museum, Disney Concert Hall, and Disneyland are examples of CRE that are works of art such that the CRE itself is the intellectual property for the occupying organization. In all of these cases, the CRE is the source of sustainable competitive advantage, and it would be natural for occupiers to want to own, rather than lease, these CRE assets.

Conclusion

According to Lizieri (2003), the next step in the evolution of strategic CRE research must be a theory-based, cross-disciplinary approach. Toward that end, this paper focused on the growing importance of analyzing CRE within the strategic management context and the need to identify the degree to which CRE can be classified, and ultimately more efficiently exploited, as a strategic enterprise resource. This paper sought clues from the strategic management literature to define the necessary criteria for classifying CRE as a strategic resource. Under the strategic management context, a strategic resource must possess valuable, rare, imperfectly imitable, and strategically unique qualities that support and sustain the competitive advantage of the firm.

As applied to CRE, these conditions are met in situations where the firm successfully combines the inherently heterogeneous and "lumpy" characteristics of real estate with relevant isolating mechanisms—superior access to inputs or customers, first mover advantage and spatial preemption, procedural barrier to resource accumulation, and CRE as art or intellectual property—to create firm-level barriers to entry. Based on these criteria, we developed a new framework integrating corporate strategy, sustainable competitive advantage, and CRE. Through this contribution, our goal has been to provide a basis for further CRE research to demonstrate the nexus between CRE, corporate strategy, and firm performance.

From the operational standpoint, previous studies on CRE and firm performance suggest that moves that signal aggressiveness in CRE management efficiency indicate an intention to maximize wealth, which translates into increased share prices (Alli, Ramirez, and Yung, 1991; Chan, Gau, and Wang, 1995; Ghosh, Rodriguez, and Sirmans, 1995; McIntosh, Rogers, Sirmans, and Liang, 1994; Rodriguez and Sirmans, 1996). Furthermore, when a company decides to make more explicit the value of property through CRE organization form activities, such as the creation of a CRE unit or its spin-off into a separate entity, valuable information is communicated to shareholders and this information becomes reflected into share prices (Hite, Owers, and Rogers, 1984; Rutherford and Nourse, 1988; Rutherford and Stone, 1989; Rutherford, 1990; Slovin, Sushka, and Polonchek, 1990; Glascock, Davidson and Sirmans, 1991).

In terms of strategy, despite recent studies indicating negative overall effects of CRE ownership on firm performance (Deng and Gyourko, 2000; Seiler, Chatrath, and Webb, 2001; Liow, 2004; Brounen and Eichholtz, 2005), these studies have only examined broad CRE ownership trends. To investigate the differing effects of operational versus strategic CRE, we believe more industry level research is needed. In particular, CRE is more closely and directly linked to the business strategy of retail companies than is the case for most sectors (Gibson and Barkham, 2001). The implication is that firms in the retail sector would have more opportunities than others to create strategic CRE portfolios that can positively impact the risk and return of companies. It may be, however, that broad indicators of financial performances are inadequate for valuing sources of competitive advantages (Day and Wensley, 1988). In the case of some resources, their benefits are in the long term and may be difficult to quantify, in which case non-traditional criteria may be required (Shank and Govindarajan, 1992).

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