Corporate Real Estate Strategy: A Conceptual Overview

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Abstract

This paper is a review of key issues that have emerged in the development of corporate real estate (CRE) over the past two decades and in particular considers how real estate asset holdings and activities support business objectives. The themes explored include definitions of CRE; the roles, contributions and functions of CRE; the paradigm shift in real estate from being a space provider to a strategic resource; and the strategic management context and strategy formulation.

Land, labor, and capital are three important resources to a firm. The use of the first resource, also known as real estate, as part of business operations and associated activities is referred to as corporate real estate (CRE) (Brueggeman and Fisher, 2001). The term CRE applies to properties that are either owned or leased by firms to achieve corporate objectives (Brown and Arnold, 1993). The management of CRE is known as corporate real estate management (CREM) and was defined by Brown and Arnold as ‘‘the optimum use of all real estate assets utilized by a corporation in pursuit of its primary business mission. CREM contributions to the firm are translated through various activities, including property acquisition and development, property management, financial analysis and miscellaneous activities such as leasing, development packaging, and brokerage (Gale and Case, 1989). Hence, it is apparent that CREM involves broader aspects of real estate management ranging from routine day-to-day property management to higher-level activities of long-term CRE strategic planning and asset management.

However, labor and capital have received more attention than land (or real estate) from scholars and practitioners (Schaefers, 1999). Focus has been given to these corporate resources and others, such as technology and information, yet real estate assets formed more than 25% of total corporate assets of major corporations in the United States in the early 1980s (Zeckhauser and Silverman, 1983). Bon, Gibson, and Luck (2002) have developed this argument and suggested that real estate accounted for 10% to 30% of total corporate assets of major European and American corporations between 1993 and 2001. Despite its large proportion on corporate balance sheets, real estate is neglected by most corporations throughout the world (Avis,

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Gibson, and Watts, 1989; Veale, 1989; Teoh, 1993; Iskandar, 1996; Schaefers, 1999; Roulac, et al., 2002; Gibler, Black, and Moon, 2002).

The myth that ''we are not in the real estate business'' seems to be the major hurdle to change and as noted by Brown and Arnold (1993) was an opinion prevailing among the top corporate management on real estate. Another perception by senior executives of major New Zealand corporations is ''we are not concerned with our real estate holdings as these are fixed asset or sunk costs,'' (Teoh, 1993). This perception is similar to the earlier finding by Zeckhauser and Silverman (1983), where almost 60% of American companies treated real estate as an overhead cost, just like stationery and paper clips.

Further, most senior executives perceive the role of real estate assets as providing appropriate working environments for the least space costs (Gibler, Black, and Moon, 2002; and Roulac, et al., 2002). These occupancy costs affect the company's profitability and will be reported in corporate income statements, together with other operating costs. Based on this point of view, real estate assets are usually treated by most corporations as cost centers rather than profit centers (Gale and Case, 1989; and Veale, 1989). The recent findings by Gibler, Black, and Moon (2002) and Roulac, et al. (2002) have confirmed that perceptions by senior management of real estate contributions have not changed much over the past two decades.

Amongst the earliest work on CRE research is the investigation of major U.S. corporations in early 1980s by Harvard Real Estate Inc. Zeckhauser and Silverman (1983), who were the principal researchers in this work, defined CRE as ''the land and buildings owned by companies not primarily in the real estate business.'' This brief definition indicates that real estate owned by a business organization often acts as a factor of production, rather than the end product available for sale. Nourse (1990) shares almost the same definition with Zeckhauser and Silverman. He defined CRE as ''the management of real property assets for use in business other than real estate.'' In this definition the term ''management'' is used, reflecting the operational side of real estate assets in a business organization. Solely owning properties is not sufficient for CRE activities, rather properties have to be managed properly. This definition reveals that the holdings of real estate assets are not necessary in the form of ''ownership,'' as the word ''management'' indicates that properties may be owned or leased for business purposes. A firm may not own any real estate assets in its business operation, it may just lease the space. These two definitions appear to be similar as they omit real estate business as an integral part of CRE, rather these authors emphasized that CRE involves the function of real estate as a factor of production and not the end or the finished product of the organization.

Brown and Arnold (1993) also raised the issue of the utilization of real estate in achieving corporate objectives. They further defined CREM as ''the optimum use of all real estate assets utilized by a corporation in pursuit of its primary business mission.'' This definition focuses on the term ''optimum.'' To achieve ''optimum'' use, there is a need for the effective and efficient management of the CRE business function. ''Effective'' refers to the decisive methods, which reduce uncertainty and arrive at desired real estate solutions (Veale, 1989), while ‘‘efficient’’ refers to the achievement of results without waste of time or effort. Nourse and Roulac (1993) argue that ‘‘the effectiveness of the CRE function relies upon connecting real property transactions to the overall corporate strategy aided by an explicit CRE strategy.’’ This argument emphasizes the importance of CRE within the overall organization, reflecting that there should be a synergy with other departments in pursuit of the organization’s business mission.

The definition of CRE has evolved with changes in the business environment and the real estate market. For instance, Kooymans (2000) incorporates the ‘‘investment’’ term when referring to CRE. He points out that ‘‘CRE is a term that is generally used in a broad sense to refer to real estate owned by a corporation, whether it is for investment or for use.’’

CRE may also be viewed as the listing of real estate assets that are found in the company’s financial statements. The ownership of these assets is shown on the company’s balance sheet at book value, while the leased properties are shown in the income statement, forming part of the firm’s operating expenses. The ownership of assets indicates the firm’s ability to pay its long-term debts. Those properties are used to support the business operation.

In summary, the most appropriate definition of CRE is as a functional unit in an organization, which is responsible for the real estate asset holdings and their activities, and supports the organization to achieve its business objectives.

Roles, Contributions, and Functions of CRE

The literature has established that real estate constitutes a significant amount of the assets on company balance sheets (Zeckhauser and Silverman, 1983; Veale, 1989; Nourse, 1990; Duckworth, 1993; Carn, Black, and Rabianski, 1999; Bon, Gibson, and Luck, 2002; Gibler, Black, and Moon, 2002; and Roulac, et al., 2002). In this context, the role and contribution of real estate in an organization in terms of monetary values is seen as two-fold: as an asset that will increase a firm’s equity and as a cost that will reduce the firm’s profitability. The former is based on the argument that real estate is a resource that will bring benefit to the business entity. For instance, profit generated through the sales of appreciated property has increased the amount of the firm’s equity (Gale and Case, 1989). Gibson and Barkham (2001) argue that an organization that perceives real estate as an asset or value added would have CRE strategies that enhance the value of the organization. In terms of real estate as a cost to the firm, Gale and Case found that 90% of U.S. organizations treated real estate similar to other production factors, such as labor and equipment. Thus, business organizations that regard real estate as a cost, tend to reduce or minimize the costs of this resource, rather than strategically manage it.

Rodriguez and Sirmans (1996) discuss the importance of CRE to major U.S. corporations (25%–40% of total assets) and the operating costs (second only to payroll costs in most organizations) of holding it for business purposes. In their carefully crafted study, they enumerate the evidence indicating that real estate decisions significantly impact on the value and returns to the firm (management, acquisitions, joint ventures, dispositions/sell-offs/liquidations/sale-leasebacks, and spin-offs).

In contrast, O'Mara (1999) highlights two major roles of real estate in business organizations in terms of physical values as a working space and as a symbol for the organization. The former is concerned with the role of real estate as a place for enabling people to carry out their tasks in the organization, while the latter indicates that the real estate fulfils a symbolic role as the physical embodiment of the organization.

The CRE function in an organization is similar to other business functions, such as sales and marketing, finance, human resource, and management information system departments, with a primary purpose to support the organization's operation. Carn, Black, and Rabianski (1999) argue that the function of CRE is to devise new strategies and blaze new pathways for more efficient and productive operations consistent with the goals and objectives of their core business. Its function is translated to various activities, such as leasing, property management, acquisitions, divestiture, and development (Veale, 1989).

Zeckhauser and Silverman (1983) suggest that CRE activities involve acquisition and divestiture, finance, and custodianship. Activities that are related to acquisition and divestiture include identification of real estate investment needs, site selection, acquisition of property, identification and disposal of surplus property, design decisions, and construction supervision. The financial aspects include capital budgeting, financial analysis, and property tax evaluation, while custodianship emphasizes aspects of property management and real estate record keeping.

Under the traditional paradigm, top management of the organization usually makes the decision and the CRE manager acts merely as the order-taker. Although the CRE manager may express opinions, the limitation on his/her involvement in the organization's strategic planning process may prevent the efficient functioning of this unit. Schaefers (1999) suggested that the CREO should be a strategist and be involved in the long-term planning to achieve the overall organization's goals. For instance, Weatherhead (1997) indicated that whether the holdings of real estate should be in the form of leasing or ownership was dependent on various factors (Exhibits 1 and 2).

A 'strategic decision' is a decision that supports the core purpose of the business (O'Mara, 1999), while an 'economic' decision refers to a decision that leads to efficiency. For instance, if the company or the finance department decided that it wanted to reduce the amount of illiquid assets, the option for leasing is more appropriate for the firm. In the case where the business intends to be unique in its identity and building design, the ownership of the property is more applicable for the business. If the top management intends to expand its business and does not want to be constrained to a particular location, then the option to lease is more applicable to

Exhibit 1
Strategic Reasons to Own and Lease Properties

Strategic Reasons to Own	Strategic Reasons to Lease
Security	Freedom to move, especially if expansion is predicted
Unique location	Less risk of being tied to an obsolete building
Transport links	Freedom to reduce the size of the estate if floor space needs to be reduced
Unique design for building	Opportunity to test locality without long-term commitment
Safeguarding location for plant and cannot be moved	Flexibility of size of letting
Ensuring space for expansion	
Freedom of choice over property management	Availability of additional services
Desire to establish community links that will aid business	Accommodation included in outsourcing contract
Supply or suitably educated or trained labor	
No suitable property available for rent	

Note: The exhibit is adapted from Weatherhead (1997).

Exhibit 2
Economic Reasons to Own and Lease Properties

Economic Reasons to Own	Economic Reasons to Lease
Avoidance of rent rises	Demands less capital
Avoidance of long-term commitments to lease conditions	Desire to limit the size of non-liquid capital assets
Control over management costs	Freedom to choose cheaper, or more expensive, locations
Protection of expensive investment in plant	
Potential for particular capital gain above level of inflation	
Potential for long-term development opportunities	
Contribution to joint venture programs	
Availability of grants	
Capital allowances	

Note: The exhibit is adapted from Weatherhead (1997).

the business. Thus, the CRE decision-making process requires integration from various departments to represent a solution suited to the organization as a whole.

Structure and Management

A director or chief real estate officer or a manager usually heads the operation of CRE with the title for the post varying according to the structure of the organization. For instance, surveys conducted by Veale (1989) revealed that the job title for the post include vice presidents (37%), managers (22%), directors (16%), presidents (10%), and a variety of specialists (15%). This range of titles indicates that the level of management for this post varies and their involvement could be in the long-term (>3 years) strategic planning, the middle term (1–3 years), or short term (<1 year) planning. Gibler, Black, and Moon (2002) indicated that only a few CRE managers are actively involved in long-term planning and co-ordination with other business units. The reporting line of the CRE manager is directly to the Vice President of Operations, and there is no direct communication to the Executive Vice President or the President (Brown and Arnold, 1993). Thus the CRE manager's role is perceived to be more operation orientated and does not involve strategic planning.

There are other communication issues, such as less interaction and hurdles to conveying messages from CRE managers to the top management. For instance, Pittman and Parker (1989) indicated that communication with chief executive officers (CEOs) is often no more than every six months. This implies that the problem might be due to the structure of the organization, the management level of the CRE manager, or the top management attitude. Indeed, Lambert, Poteete, and Waltch (1995) argue that CRE managers are not reporting their findings on CRE activities to senior management. Another view, identified by Arthur Andersen (1993), is that senior managers would use real estate information in business decisions when that information is effectively communicated. Both findings seem to indicate that the shortcomings are from the CRE manager's side.

According to Zeckhauser and Silverman (1983), the real estate inventory system within an organization is very important since it allows for property performance evaluation and real estate decision making. For instance, accurate data on floor areas may not be available without a proper inventory system. Veale (1989) identified several obstacles in developing the real estate inventory system within an organization. These include costs of setting up the management information system (MIS), lack of manpower, unfamiliarity with an available MIS, and being unable to convince the top management of the importance of a real estate inventory system. This finding implies that the communication issues faced by CRE managers are due to inadequate real estate information stemming from various factors, in particular organizational support. Issues arising from a lack of availability of an MIS presumably have declined since 1989.

The role of a CRE manager in a business organization is challenging, since CRE activities comprise all aspects of real estate holdings in the business organization. Seiler, Chatrath, and Webb (2001) point out that the CRE manager has a more complex objective function than does the individual investor or developer who seeks real estate investments in order to increase wealth. Rather, Seiler, et al. consider that CRE managers should provide necessary facilities at the lowest cost by taking into account the impact on operating risk, financial risk, and corporate stock valuation. The CRE manager must acquire and dispose of real assets, arrange the financing of these assets, and integrate these tasks into corporate strategy.

CRE as a Distinct Real Estate Area

The term CRE manager is often confused with other aspects of real estate areas, especially the facilities manager (FM) and property management. However, the CRE function involves the general process of managing all aspects of real estate in the business organization, implying that the function of CRE is wider than property management. Indeed, there are significant differences between property management and CRE (Exhibit 3). The former involves day-to-day property maintenance and management, which requires personnel with more technical skills. The latter comprises the strategic use of real estate to support the business operation and requires personnel with more managerial skills.

Also, facilities management needs to be distinguished from CRE. Facilities management is concerned with coordinating the needs of people, equipment, and operational activities into physical workplace (Brown and Arnold, 1993). The tasks related to the FM department are acquisition and disposition, physical upkeep, record keeping, and reporting tasks for corporate-owned real estate. The U.S. Library of Congress defines FM as ‘‘the practice of coordinating the physical workplace

Exhibit 3
Summary of Differences between Property Management and CRE

Scope	Property Management	CRE
Objectives	Building maintenance	Strategic real estate activities to support the business operation
Activities	Day-to-day tasks; administrative management, marketing and physical management.	The management of all aspects of real estate; acquisition and development, disposition, property management, financial analysis, surplus property, and miscellaneous activities such as leasing and brokerage.
Users	Building occupiers/tenants	Stakeholders
Management	Property manager	Corporate real estate manager
Skills	Property specialist, business administration and engineering	Property specialists with financial and management background.
Level of management*	Tactical or operational	Strategic or tactical

Note:
* Depends on the structure of the organization.

with people and work of the organization integrates the principles of business administration, architecture and the behavioral and engineering sciences.'' Amaratunga (2000) argues that the definition is very broad and should incorporate at least three principal aspects: (1) it is a supporting management function to the core business of the organization; (2) it concentrates on the area of interface between physical workplace and people; and (3) it requires a multi-skilled approach.

The FM function is to support the core business of the organization, which is similar to the function of CRE. However, the scope of CRE is wider as it involves the strategic aspect of real estate in the organization, whereas FM forms part of the CRE activities and it is operative in nature. The differences between FM and CRE are summarized in Exhibit 4.

Hence, the CRE manager's role is concerned with the strategic role of real estate management within an organization with both FM and property management part of the operations under the CRE manager. The responsibilities of the CRE manager are to strategize the CRE function and co-ordinate the two departments in order to support the overall business operation.

Exhibit 4
Summary of Differences between FM and CRE

Scope	FM	CRE
Objectives	Provide quality working environment to support the business operation	Strategic real estate activities to support the business operation
Activities	Acquisition and disposition, physical upkeep, record keeping, and reporting tasks to CRE owner.	The management of all aspects of real estate; acquisition and development, disposition, property management, financial analysis, surplus property, and miscellaneous activities such as leasing and brokerage.
Users	Staff and workers in the organization	Stakeholders
Management	Facilities manager	Corporate real estate manager
Skills	Professionals with the architectural, construction engineering, industrial engineering and operation management skills.	Property specialists with financial and management background.
Level of management*	Tactical or operational	Strategic or tactical

Note:
*Depends on the structure of the organization.

The Paradigm Shift

The CRE role has evolved significantly over the past three decades from space provider to a strategic resource to the business firm. This trend has evolved with changes in the business environment where the paradigm shift emphasizes both competitive advantage due to global market competition (Roulac, 2001) and the information communication technology (ICT) revolution, which collectively have changed both lifestyle and business operations. These changes have required the CRE manager to be more creative and proactive. Offices have to be designed in such a way as to have access to other parts of the world through the Internet. Retail outlets have to be designed in an attractive manner, according to the taste of the shoppers, in order to minimize the threat of online shopping. The ability to cope and respond to these changes has resulted in recognition of this resource as an important element in the organization. Roulac (2001) believes that CRE is beginning to be recognized as ''the means'' by which an enterprise connects both with its resource input and its customers.

Research in the late 1990s and early 2000s has placed greater emphasis on the strategic importance of CRE within corporations. For instance, Roulac (1995, 1996, and 2001) concentrates on identifying real estate strategies within business corporations, the link between real estate and corporate strategy, and the significance of real estate in the achievement of corporate business objectives. Manning, Rodriguez, and Ghosh (1999) emphasized the real estate strategies that support business organizations in achieving business objectives and the creation of shareholders' wealth. Although the research direction of CRE has moved to strategic issues and contributions to business organizations, there has also been a focus on CRE practices and profiles (Manning and Roulac, 2001). For instance, the annual survey by Bon, Gibson, and Luck (2002) indicates the practical trends of CRE in large organizations. Gibler, Black, and Moon (2002) investigated the CRE profiles amongst companies in the U.S., U.K., Australia, and Hong Kong. They indicate that, overall, CREOs are still playing the traditional role within the organizations. The findings indicate that although real estate has been recognized as a strategic resource, the attempts by companies to strategize this resource are still low supporting the position of Manning and Roulac (1999) for greater research on CRE within the real estate academy.

The development of the CRE discipline within business organizations with a focus on the CREO's role has been investigated by Joroff, Louargand, Lambert, and Becker (1993), Then (1996), O'Mara (1999), and Roulac (2001). Joroff, et al. believe that the twenty-first century will turn the CREO into a business strategist. They identify five evolutionary stages in the roles of CREO within the organization. The first stage is known as taskmaster, which emphasizes the role of the CREO as a maintainer of the buildings. The required skills for this task are mainly professional technical skills, such as building engineering. This is followed by the role of the CREO as controller. The third stage, the dealmaker role, sees the CREO attempting to solve specific organizational problems through real estate solutions, such as standardizing building usage. The fourth stage emphasizes the role of CREO as an entrepreneur, who provides services to other business units at market costs. Finally, the CREO's role is transformed into that of a strategist, who is highly involved in the long-term planning of the organization and strategic business management process. This stage emphasizes the function of CRE as a support to the business in achieving its objectives.

Then (1996) identifies four types of operational asset management models based on the perceptions of senior management and influenced by the prevailing organization culture. The first type is the indifference response, where senior management perceives real estate assets as ''free goods'' that provide the physical space for business activities. This response is similar to Joroff, Louargand, Lambert, and Becker's (1993) finding on the role of the CREO as a taskmaster. The second response is reactive, which views real estate operations as a cost that is borne by the company. In this regard, senior management's emphasis is on cost minimization for the real estate operation. The third response is proactive where real estate is perceived as an asset that will add value to the business. The author refers to this model as a shift towards active problem solving by the real estate function on behalf of the business units. He concludes that this response is similar to the dealmaker stage as it improves communication between the internal customers (business units) and the service provider (real estate department). The final response views real estate as a business resource, which can create business opportunities. The business response reflects the involvement of the CREO in the strategic planning process and real estate assets as an important resource for the business.

O'Mara (1999) discusses the identification of CRE mindsets arguing that these are influenced by the changes in environment, such as technological change, new management ideas, financial markets, and historical events. The three mindsets are market, minimize cost, and strategic. The market mindset that evolved in 1970s was due to the undersupply of property and increased value of real estate assets. The main concern of management was to speculate on the value of real estate. The minimize cost mindset resulted from management's concern with re-engineering and downsizing of business operations. Thus, the CRE function was focused on cost reduction, and this mindset evolved in the late 1980s and early 1990s. The current mindset, known as strategic mindset, is in response to the competitive business environment, which requires a strategic role for CREOs. CRE decisions are made in the context of what the organization does to compete and succeed in the market place.

Roulac (2001) highlights the five evolutionary eras of CRE. They start with the recognition of CRE function as custodial. Similar to the findings on the first level of the models by Joroff, Louargand, Lambert, and Becker (1993) and Then (1996), the custodial era focuses on facilities administration with the main concern on physical maintenance. The second era highlights the CREO's role as the entrepreneur. CRE is viewed as a business unit and seeks profits through service provision. The unit is active in the real estate business through the development of business subsidiaries and joint ventures. The third era is administrative, reflecting management concern with efficiency. The CRE role is to minimize real estate operating costs through outsourcing real estate services and placing emphasis on financial analysis. The fourth era is managerial, which stems from growth, change, and differentiation management orientation. The CRE role is to develop systems for process and service in order to be effective. Finally, the strategic era requires the CRE role to be more proactive and creative through support for the organization in achieving its business objectives. For instance, the CRE role is to create compelling places to work and shop, which will increase the productivity of firms. The findings of these researchers (Exhibit 5) complement each other, although O'Mara's (1999) work emphasized external factors. In contrast, Joroff, Louargand, Lambert, and Becker (1993), Then (1996), and Roulac (2001) tended to highlight internal factors with a particular reference to senior management perception and orientation.

The Strategic Management Context

Demand for value creation has made companies more responsive to shareholders' interests. This in turn has created pressures on senior management to perform accordingly and ensure that companies remain competitive. Indeed, over the past few years, several companies have taken actions against CEOs. This phenomenon reflects a business environment that requires CEOs to be more creative and innovative in managing the business organization in order to increase the market share of the company, as well as shareholder value. One of the key factors to achieving these goals is through the application of appropriate strategies, which is traditionally viewed as a senior management activity (Prahalad, 2000). However, the emerging view of strategy indicates that it is an activity that involves the whole organization. Thus, the burden should be shared with other functional units in the organization, including the real estate department.

Kay (2000) views strategy as a set of analytic techniques for understanding and influencing the firm's position in a market place. It provides the best direction and identifies the main milestones in the business and acts as an exercise in imagining and molding the future of the business (Prahalad, 2000). These definitions imply that strategy is a course of action, which plays a very important role in enhancing a firm's performance and assisting the firm in shaping its future.

A business organization usually comprises three types of strategies: corporate, business, and functional. Wheelen and Hunger (2000) define corporate strategy as a company's overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. Thompson and Strickland (1998) view corporate strategy as an umbrella covering the diversified businesses in a company. These definitions indicate that the main concern of corporate strategy is to carefully select the areas in which the company will operate and acts as guidance to focus the company into one direction, regardless of the number of departments, branches, and subsidiaries owned by the company. In theory, all of the departments and human resources share the same vision and mission, and move in one direction while fulfilling the various responsibilities of the company. The people who are involved in formulating corporate strategy are the CEO and other key executives, such as the vice presidents of the organization (Thompson and Strickland, 1998).

Exhibit 5
The Development of CRE Profession within Business Organizations

Joroff et al. (1993)	Then (1996)	O'Mara (1999)	Roulac (2001)	Comments
5 Evolutionary Stages	Management Response	Mindset	Evolutionary Era	
Task Master	Indifference	Market	Custodial	All exhibit similar descriptions on CREO's role as a caretaker. Skill required: professional technical skill such as building engineering.
			Entrepreneurial	Roulac identifies entrepreneurial era earlier than Joroff et al. Descriptions: provide services to other business units and charge at the market costs. Skills required: Business management skills.
Controller	Reactive	Minimize cost	Administrative	All exhibit similar descriptions on CREO's role as a cost controller due to the management concern on minimizing real estate operating costs. Skill required: financial analysis.
Dealmaker	Proactive		Managerial	Joroff et al., Then, and Roulac describe the CREO role to focus on active problem solving concerning real estate. Skills required: Negotiation and problem-solving abilities.
Entrepreneur			Business	Joroff et al. description on entrepreneur stage similar to Roulac's entrepreneur era. Then describes the business response similar to the entrepreneur and business strategist stages of Joroff et al.
Business Strategist		Strategic	Strategic	All exhibit similar descriptions on CREO's role as a strategist, who is proactive and creative. Involves in the strategic business planning. Skills required: managerial, finance and property skills.

Notes: The sources are: Joroff et al. (1993), Then (1996), O'Mara (1999), and Roulac (2001).

The formulation of a business strategy is the responsibility of the general manager or head of the business (Thompson and Strickland, 1998). This strategy is concerned with the match between the internal capabilities of the company and its external environment (Kay, 2000). It focuses on improving the competitive position of a company's products or services within the specific industry or market segment and usually occurs at the business unit or product level (Wheelen and Hunger, 2000). Basically, business strategy focuses on a specific business unit or product line and reacts to changes in the business environment and identifies actions to maintain competitiveness in the market.

The business strategy concentrates on the question of *how*, in contrast to corporate strategy, which focuses on the question of *what* industry the company should be involved in (Wheelen and Hunger, 2000). The business strategy is an extension of the earlier identification process in corporate strategy analysis and thus, it is said to stem from the corporate strategy. The formulation of business strategy must be in accordance with the company's direction. Indeed, Weatherhead (1997) argues that the purpose of developing a business strategy is to focus on the operations of the business and to bring success from gaining competitive advantage.

Functional strategy is the approach taken by a unit to support the business strategy level (Daft, 2006). Functional managers, such as marketing, manufacturing, operations, research and development (R&D), and human resources managers are responsible for the development of functional strategy. For instance, a marketing department is responsible for developing marketing strategy and is concerned with matters relating to pricing, selling, and distribution of the products (Wheelen and Hunger, 2000). Although the functional managers hold specific responsibilities, all decisions are reviewed and approved by the head of business unit.

The corporate, business, and functional strategies are applied simultaneously in the organization. Each of these strategies must complement and support one another to achieve the overall goal of the organization.

Formulation of CRE Strategy

Real estate strategy demonstrates how CRE activities support the business strategy and achieve the CRE department's objectives and mission. In crafting the strategy, the CRE manager will work closely with other functional units to avoid uncoordinated and conflicting strategies (Thompson and Strickland, 1998). Since real estate strategy takes priority after business strategy, CRE strategy formulation should support business strategy. In this context, the strength of the Nourse and Roulac (1993) CRE strategy framework is its linkage to and derivation from business strategy models, namely strategic driving forces after Tregoe and Zimmerman (1980), the five competitive forces of Porter (1979), and generic strategies also from Porter (1985). The Nourse and Roulac CRE strategy framework identified eight alternative CRE strategies (Exhibit 6) and operating decisions based on the CRE strategies employed.

The first strategy is occupancy to cost minimization (Exhibit 6) in order to reduce occupancy cost. CRE usually forms the second highest operating costs in the business

Exhibit 6
Eight Alternative Real Estate Strategies

Strategy	Criteria
1. Occupancy to Cost Minimization	Explicit lowest cost-provider strategy. Signal to critical constituencies of cost-consciousness.
2. Flexibility	Accommodate changing organizational space requirements. Manage variability/risk associated with dramatic escalation/compression space needs. Favor facilities that can be readily adapted to multiple uses by corporation and others.
3. Promote Human Resources Objectives	Provide efficient environment to enhance productivity. Recognize that environments are important elements of job satisfaction and therefore compensation. Seek locations convenient to employees with preferred amenities (transportation, shopping, reference, entertainment).
4. Promote Marketing Message	Symbolic statement of substance or some other value. Form of physical institutional advertising. Control environment of interaction with company's product/service offering.
5. Promote Sales and Selling Process	High traffic location to attract customers. Attractive environment to support/enhance sale.
6. Facilities Production, Operation and Service Delivery	Seek/design facilities that facilitate making company products/delivering company services. Favor locations and arrangements that are convenient to customers.
7. Facilitate Managerial Process and Knowledge Framework	Emphasize knowledge work setting over traditional industrial paradigm. Recognize changing character, tools used in, and location of work.
8. Capture the Real Estate Value Creation of the Business	RE impacts resulting from demand created by customers. RE impacts resulting from demand created by employees. RE impacts resulting from demand created by suppliers.

Note: The source is Nourse and Roulac (1993).

organization. This strategy is directly linked to cost leadership of Porter's (1985) generic strategies. Cost leadership concerns on low cost production and organization seeks a strategy that will minimize the operational costs. Examples of CRE roles to support this business strategy include the selection of business location in a less popular area, less priority given to exterior quality of buildings, minimum space per employee, and reduction of CRE financial responsibility in relation to CRE ownerships.

The second strategy is flexibility, which emphasizes that the corporate real estate unit (CREU) is ready to accommodate changes in organizational space requirements (Exhibit 6). The effect of downsizing may cause the organization to shrink its working space. This strategy is directly linked to the market-driven needs of Tregoe and Zimmerman (1980), which attempts to serve the needs of a particular segment of a market. CRE is flexible and could be adjusted according to the market needs. For example, facilities could be expanded when there is growth or vice versa.

The third CRE strategy concerns promoting human resource (HR) objectives. The role of CRE to promote HR is through the provision of working environments that enhance productivity. The provision of working spaces and places convenient to employees will result in more committed and motivated workers. This strategy is viewed as having a direct link with the driving force of production capability of Tregoe and Zimmerman (1980). This force defines its business by attempting to provide products and services that can be produced based on production capability. The CRE role is seen as supporting the production process and the invention of new products by supplying suitable working space. Employees will be more motivated to work when the organization provides more space per employee, more amenities given to support their needs, such as proximity to health services and leisure activities, and a location that is easily accessible. When employees have a nice working environment, the productivity of the organization will likely increase.

The fourth strategy is to promote a marketing message that emphasizes the marketing of the business products or services. The real estate operating decisions related to this strategy include the location of the business in a prestigious and highly visible area, organization creates a landmark structure, and high priority given to identity and signage of the business. This strategy is linked to the Tregoe and Zimmerman (1980) strategic driving force, in particular the market-driven forces. This force tends to define the business by highlighting the marketing strategy of the products and services to customers. Another business strategy model that could be linked to promote a marketing message strategy is Porter's (1985) generic strategies, in particular, quality differentiation. This business strategy indicates that the firm produces products and services that are unique to the business. The role of CRE is through the provision of company space with a unique design to reflect the identity of the organization. For instance, McDonald's promotes its identity through Golden Arches and Pizza Hut through its red roof (Nourse and Roulac, 1993).

The fifth strategy is to promote sales and the selling process to attracting customers. The aspects that are emphasized by management relate to the location and space management of the property. The real estate operating decisions to implement this strategy include the selection of location and the format of the premises, which will meet the employees and customers' needs. For example, a business will choose a location in high street to attract the customers. This strategy is directly linked to the market-driven forces of Tregoe and Zimmerman (1980), which attempts to serve the needs of a particular segment of a market. It is also linked to Porter's (1979) competitive forces, particularly the bargaining power of the buyers. Buyers may range from customers who act as the end users of the products and companies such as retailers, which distribute the products to the end users. The competitive strengths of buyers varies according to their capabilities and they are said to have a strong competitive force when they are able to exercise bargaining leverage over price, quality, service, or other terms of sale (Thompson and Strickland, 1998). From this point of view, CRE could provide locations that have a critical impact on the selling environment to fulfill the customers' needs.

The sixth strategy is to facilitate production, operation, and service delivery that emphasize the design of facilities, which are conducive and suitable for operational activities (Exhibit 6). For instance, the design of a building with easy access to products and the delivery of services. This strategy supports the driving force that is based on capabilities concerning the method of distribution. This force leads the business to define its distribution of products and services. The business attempts to improve its distribution system and invent new products and services. Based on this strategic driving force, CRE support is linked through the application of production, operation, and product and service delivery strategies. For instance, a business located close to suppliers and buyers, which will speed up the delivery process. This also reduces distribution costs. The good access and proximity to suppliers and customers offers a competitive advantage to the firm whose competitors may not have these conveniences. As such this strategy could also be linked to the Porter's (1979) five competitive forces, especially the bargaining power of suppliers and buyers. The firm exerts commanding bargaining power when it has control over the prices, quality, and performance of its products and services, along with their reliable delivery.

Another driving force that could be linked to facilitate production, operation, and service delivery is the production capability driving force of Tregoe and Zimmerman (1980). CRE links to support this business strategy is through manufacturing space, such as having a custom built manufacturing facility.

The seventh strategy is to facilitate the managerial process and knowledge framework, which focuses on knowledge acquisition, such as learning resources. This strategy also emphasizes the technological aspects of the buildings, such as technology that facilitates effective communication and an effective working environment. The application of this strategy is linked to the technological driving force of Tregoe and Zimmerman (1980), which interprets the business as injecting its technological capabilities into its products and services.

The eighth real strategy concerns the capturing of real estate value creation through operating decisions that result in high demand from customers, employees, and suppliers. The real estate operating decisions include company-secured space and land for future business expansion. As such, this strategy is directly linked to Porter's (1979) five competitive forces. These forces indicate that a firm needs to compete for a better position in the market.

Conclusion

This study has reviewed some of the developments in CRE thinking over the past two decades. The changing focus of CRE has been expressed in terms of a paradigm shift in the way that corporations use real assets. The need for CRE strategy to reflect business strategy emerges strongly in the literature with CRE strategy frameworks linked closely to corporate business strategy. Only recently has empirical evidence emerged that some CRE strategies have a significant impact on the value of business (share price) while others do not (Ali, McGreal, Adair, Webb, and Roulac, 2006). This seems to be true for developed countries, such as the United Kingdom, as well as for developing countries, such as Malaysia (Ali, McGreal, Adair, and Webb, 2006 and 2008). Undoubtedly these results are at least partially dependent on the individual firm, its specific uses, and the form of real estate used (lease, ownerships). The best way to speed the adoption of a clear, stated, and purposeful CRE strategy is to demonstrate its worth in increasing the value of the firm. Business executives are pragmatic, value-maximizing people, in general, and therefore should be receptive to rigorous empirical research on this question. However, additional research needs to be done on the nuances of how corporate strategies work to increase firm value and why, such that it is obvious that there are real advantages to companies that effectively implement certain CRE strategies.

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