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Publication date
2017

Document Version
Final published version

Published in
CoreNet Leader Magazine

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Exploring new frontiers in corporate real estate strategies and organizational culture

by Ilir Nase and Monique Arkesteijn

The quote "Culture eats strategy for breakfast" was made famous by Mark Field, president at Ford, in 2006 and has, ever since, been a guiding principle in management practice of corporations operating across the globe. The general management profession has widely embraced culture as a key factor in strategy design. However, in corporate real estate (CRE) management, it appears to be implicit within organizational differences at best, or lacking proper consideration at worst.

Multinational corporations are faced with the need to centralize decision-making regarding their real estate to increase its agility in meeting rapidly changing business needs. In this new scenario of "acting globally and thinking locally," understanding cultural variations across nations and organizations alike is crucial. Analyzing the link between CRE strategies and organizational culture is essential for delivering value to multinationals.

Given this significant knowledge gap, we set out to explore these new frontiers through empirical research that uses data from a survey with 231 CoreNet Global members. This article provides a concise overview of the findings from this study that bears particular importance for the CRE management profession at large.

Operating framework for the empirical study

In selecting effective real estate strategies, the key factor for corporations is strategic fit or the alignment of these strategies to the core business ones. This study utilizes the framework of eight CRE strategies for maximization of shareholders wealth through profitability and revenue growth (see Figure 1). The framework is selected particularly because it has been empirically tested with a survey of CoreNet Global members in 2010, which ensures continuity of concepts and allows for (partial) comparison of the two survey results.

Real estate strategy	Core business performance indicator
1. Increasing the value of an organization's real estate assets	Revenue growth
2. Promoting marketing, sales and organizational brand	
3. Encouraging and supporting employee innovation and creativity	
4. Supporting environmental sustainability	
5. Enhancing employee wellbeing and satisfaction	
6. Increasing employee efficiency and productivity	Profitability growth
7. Enabling flexibility	
8. Reducing real estate related costs	

Figure 1: Corporate real estate strategies for revenue and profitability by growth

Culture is an extremely broad concept that has seen a wide variety of definitions and has given rise to different schools of thought. Our study does not particularly focus on the definition of culture; however, it acknowledges the clear distinction between national and organizational cultures and focuses on the latter. To assess organizational culture we use the Competing Values Framework that is based on two dimensions of organizational effectiveness. These dimensions produce four quadrants, each representing a distinct cultural type, that are competing at the diagonal (see Figure 2). This framework has been widely implemented to assess organizational culture across a wide variety of industries.

Figure 2: The Competing Values Framework

The survey

"Corporate real estate strategies" and 'Organizational culture" were the two key pillars around which the questionnaire was structured. Overall, the questions were categorized under three groupings: "general information," "organizational culture assessment," and "corporate real estate strategies." The first- and third-grouping questions were directly used from the 2010 CoreNet Global survey to ensure continuity in the strategy component of the analysis.

Organizational culture assessment consisted of a set of six questions asking the respondents' opinion about aspects of their organization, namely social atmosphere, leadership style, management style, strategic emphasis (the glue that holds the organization together), and definition of success. Each question provided five alternative-choice answers, four of which relate to the organizational culture types described by the competing values framework; the last gave the respondent the option to specify different attributes from the above. This yielded five organizational culture types: Clan, Adhocracy, Market, Hierarchy and No (cultural) Dominance.

Empirical findings

The 2016 survey was completed in almost seven weeks by 236 respondents for a response rate of about 3 percent, which we consider satisfactory. Following exclusion of respondent categories falling out of the study scope, we approach the empirical analysis with a final dataset of 231 responses and report findings under three headings:

- general interrelationships between CRE strategy and organizational culture;
- comparison of CRE strategy priority between the 2010 and 2016 surveys; and
- cultural variations across industry sector, firm size and CRE department size.

Additionally, we grouped CRE strategies based only on the strength of their correlation, avoiding any a priori researcher-defined categorization to understand the approach of CRE managers towards these strategies.

Interrelationship between CRE strategy and organizational culture

The results suggest clear patterns of association between preferred strategies and cultural groupings based on the attributes of each culture.

Organizational culture effectiveness criteria emphasizing flexibility and discretion, as opposed to those that focus on stability and control, provide a clear dividing line in strategy preference of survey respondents. Strategies that have employees as their core target are prioritized by the Clan and Adhocracy cultures, while reducing real estate costs was the main concern among respondents identifying with Market and Hierarchy cultures.

The diagonally competing quadrants in organizational culture show clearly different priorities in corporate real estate strategies. The Adhocracy-Hierarchy pair is diametrically different in their strategy focus. The former prioritizes creativity, flexibility and other employee-related strategies and tends to put less emphasis on real estate costs. The latter is highly driven by efficiency, as indicated by a priority for reducing real estate costs and a lack of consideration for increasing employee creativity.

Overall, increasing the value of real estate assets is the least-preferred strategy, consistently ranking bottom across the four culture groupings.

Change in CRE strategy priority from 2010 to 2016

Compared to the previous survey of 2010, there were very little changes in the importance that managers responding in 2016 place to CRE strategies in supporting core business. Reducing real estate costs ranked at the top and increasing the value of real estate assets ranked at the bottom of the strategy-priority list. Second and third top-priority strategies remained unchanged, while the rest showed only one rank change. We interpret this as consolidation of knowledge among CRE managers of these particular strategies. Additionally, this might be attributed to the continuing trend of considering CRE from a cost-control perspective and prevailing of the leasing option in CRE procurement.

Cultural variations across industry sectors

Among the corporations operating in the banking and finance and business-consulting sectors, there is a clear dominance of the Market and Hierarchy cultures. This indicates clear inclination towards efficiency-driven practices in these sectors. The corporations operating in the Manufacturing & Construction and the Technology Media & Telecommunications sectors do not identify with the Hierarchy culture. Particularly for the latter sector, this is an expected outcome since it tends to overcome formal rules and centralized power to promote innovation and creativity. From the respondents operating in the Energy and Utilities sectors, no association with the Adhocracy culture was reported, indicating a strong focus on efficiency at the expense of creativity and flexibility.

Cultural variations across, firm size and CRE department size

Relatively large organizations are associated with Market and Hierarchy cultures. Additionally, companies with relatively large CRE departments associate themselves almost exclusively with the Hierarchy and Market cultures. This indicates that large multinationals favor stability and control criteria to promote efficiency and a competitive advantage.

The results of the statistical analysis indicate two clearly distinguishable groupings of CRE strategies based on their scope as real estate and non-real-estate related. The first grouping, comprised of reducing real estate

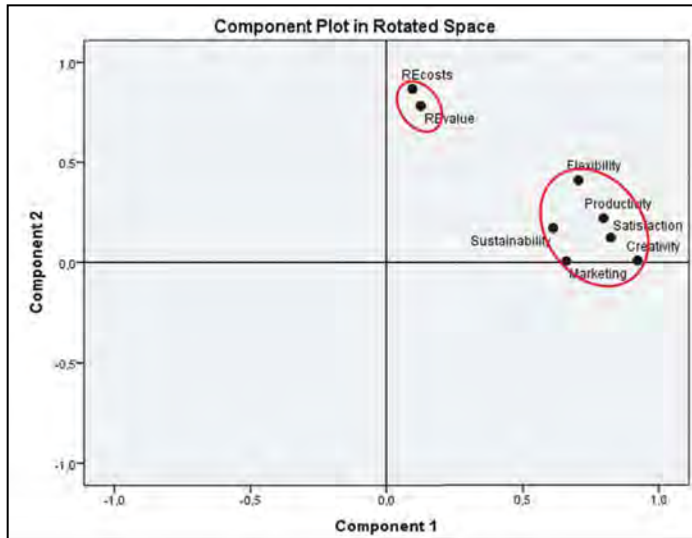

Figure 3: CRE strategy categorization

costs and increasing the value of real estate assets strategies we label "real-estate-related," and the other grouping comprised of all the other six strategies we label employee-centric and corporate image focused (see Figure 3).

Further steps

This study confirms association among organizational culture and CRE strategies. Its findings are particularly important to CRE managers who want to shift from cost control to value creation for their core business. Ours was an initial effort towards exploring these new frontiers in the management of corporate property. Clearly, further steps are needed to improve our understanding of the role of culture in CRE management, including a more in-depth assessment of organizational culture through case studies of individual firms, a wider picture of the impact of both national and organizational cultures within industry sectors, and further investigation of the scope-based approach to strategy categorization.

Parts of this article were adapted from the report, "What Is Served For Breakfast? An empirical investigation of organizational culture and corporate real estate strategies," available from the CoreNet Global Knowledge Center.

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