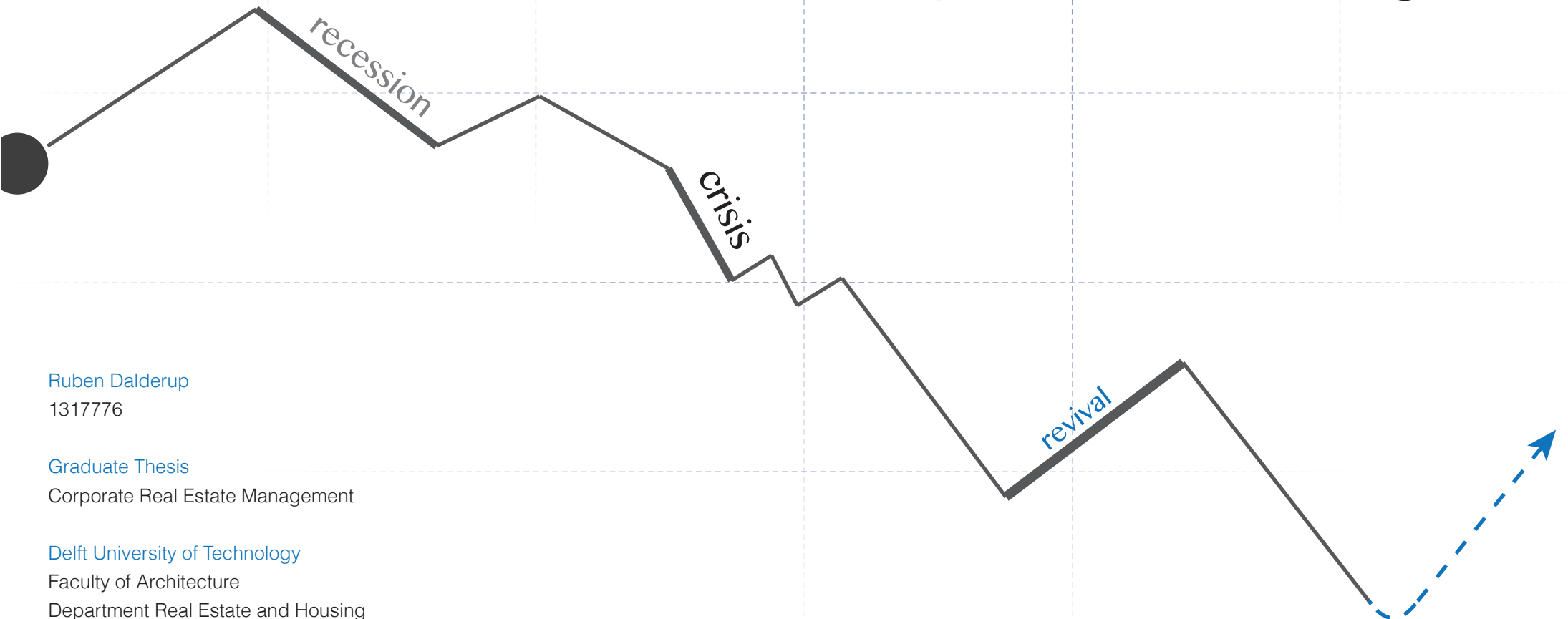


BEATING THE CRUNCH

‘corporate real estate management’



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Graduate Thesis

Corporate Real Estate Management

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Research Question

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

PREFACE

After seven beautiful years in Delft, where I've combined study, sports and numerous activities, I'm extremely motivated to finish my studies with honours. In my opinion, graduating should be doing what you love the most. It is the ideal opportunity to mix your interests with your passion, skills and qualities. And that's what I've done.

I have always been strongly economically and financially oriented. During my studies, I have deepened in the business and organizational side of technology, mainly through extracurricular activities. It has inspired me to find the substantial boundaries of Corporate Real Estate Management. This graduation thesis combines macro-level economy with corporate processes and operational real estate activities.

I'm happy to conclude that this graduation research has helped me to learn: to learn about business, about real estate and about myself. I'm grateful that this thesis has showed me what I'm capable of and has helped me to make up my mind. I'm proud to say that I have my friends and family to thank, who have helped me to get through when it was necessary.

I thank Monique Arkesteijn for her openness, critical view and guidance. I thank Louk Heijnders for his extensive financial-economic lectures and enthusiasm that inspired me to go one step further every time. A special thanks to my interviewees for their willingness to share their time and knowledge with me.

Pleasant reading,

Ruben Dalderup

The rise of the **financial crisis**,
or credit crunch, in 2007,

'A situation in which the supply of money is outpaced by the demand for money. This means that liquidity is quickly evaporated because available money is withdrawn from banks, forcing banks either to sell other investments to make up for the shortfall or to collapse'
(BusinessDictionary, 2012).

resulted in a **global recession**,
especially affecting Europe and the United States,

'The 2008–2012 global recession, sometimes referred to as the Great Recession, is a marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008'
(Wikipedia, 2012).

and has impact on all businesses and organizations,
both **corporate** and municipal.

'A multinational is an enterprise operating in several countries but managed from one (home) country' (BusinessDictionary, 2012).

In order to survive the crisis,
corporations are forced to adapt their **corporate strategy**,

'The direction an organization takes with the objective of achieving business success in the long term.'

influenced by **external business aspects**,

'Outside influences can impact a business and the achievement of its strategic goals and objectives. External factors might be: competition; social, legal and technological changes, and the economic and political environment.'

and in line with the internal **corporate culture**.

'Successful implementation of core business strategies requires congruence among an array of internal elements and strategies'
(Gibler and Lindholm 2011)

This requires **alignment** of all business aspects,

'The bringing into harmony things that differ or could differ by making them consistent or in agreement with each other' (Heywood and Kenley 2008)

including **real estate**,

'Corporate real estate is a strategic resource in the set of the corporations other production resources: capital, people, technology and information (Joroff 1993).'

through unambiguous corporate **decision-making**.

'The mental process of weighing several alternative scenarios, resulting in the selection of a course of action. The output can be an action or an opinion of choice.'

MANAGEMENT SUMMARY

On September 14th 2008, the financial breakdown of Lehman Brothers, one of the oldest banks of the United States, marked the beginning of the biggest financial crisis in eighty years (Hazeu 2011). The world has been under the spell of the financial crisis, or credit crunch, ever since. At the basis of the credit crunch lies a series of (in)dependent events, decisions and actions, initiated and caused by multiple parties. Not one party is to blame, although many condemn the mentality of banks, the greed of consumers and their desire for instant gratification. The credit crunch blended into the European sovereign debt crisis, also known as the Eurozone crisis, in 2010. The Dutch government has already provided 44 billion euros to several Dutch banks to keep them from collapsing (Hazeu 2011).

The macroeconomic environment is important for business and the overall competitiveness (Schwab 2012). The threat of collapse of large financial institutions and the major downturn in stock markets have heavily influenced business and consumer confidence in the past five years. Corporations suffered from poor business results, forcing them to strategically respond to the effects of the credit crunch. The most common response of corporations towards economic downturn is to cut back on spending to conserve cash, particularly on investment spending that can be deferred or delayed (Pearce and Michael 2006). All corporate resources are put to use, including real estate. With real estate being the second largest cost factor on the balance (after human resources), its impact on the business is significant (Hwa 2003; Heywood 2008).

Corporate real estate management emerged in the 1990s. Real estate professionals believe real estate to be the fifth resource, next to people, technology, information and capital. Real estate decisions have direct financial impact on corporate performance as well as indirect

influence through accommodating core business activities. Although real estate by many is often seen essentially as a factor of production rather than an asset used in a more strategic manner, the real estate practice is undoubtedly linked to corporate performance. It is up to corporate and real estate managers to value its importance.

This research builds on the assumption that (1) there is a demonstrable relationship between the corporate (business) strategy, including associated business objectives, and the corporate real estate strategy; and (2) the economic context and market conditions have impact on the real estate strategy, directly or indirectly through the development of the corporate strategy. The credit crunch provides the opportunity to assess and review the relationship. "Recessions are a godsend for they strain management capabilities to their limit, and they are, therefore, a natural setting in which to study how firms cope with environmental challenges" (Geroski and Gregg 1994). This thesis gives answer to the main research question: *'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'*

There is little scientific and practical understanding of real estate strategies within corporations (Roulac, Adair et al. 2005). Moreover, there is scarcity in research relating corporate real estate strategies with external business dimensions, for as Heywood and Kenley (2008) put it: "Business dimensions external to the organization are probably of more interest to senior and business unit managers" (Heywood and Kenley 2008). The objective is to provide an understanding of corporate real estate management within corporations, including the decision-making process, and to demonstrate the importance to create added value or sustainable competitive advantage.

To show different perspectives, the research is performed by means of case studies among six Dutch multinational corporations, active in a variation of industries. These industries are the Fast Moving Consumer Goods sector, the Industrial sector and the Financial sector. The sectors offer completely different products and services; they have their own company specific driving forces and different target groups. The corporations are Ahold & Unilever, AkzoNobel & Shell and ABN AMRO & ING.

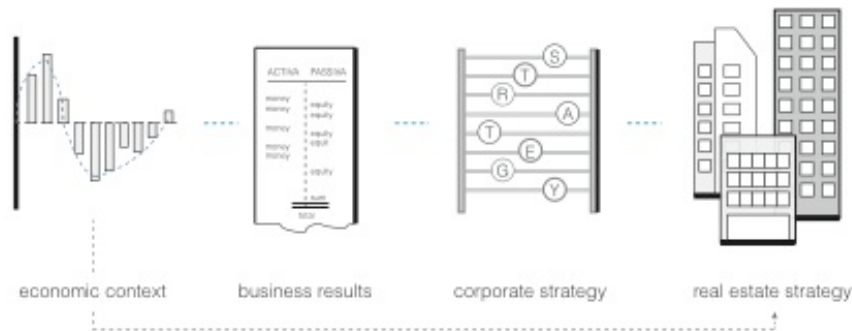


Figure 1: Research elements

The conceptual model considers and links four research elements: (1) the macroeconomic environment, including regional trends and local market developments, (2) the corporate business results, (3) the corporate strategy and (4) the real estate strategy. The theoretical framework is designed to classify corporate and real estate strategies and indicate changes over time. At the basis of the theoretical model lies the assumption that a corporate strategy, classified by Porter (1985), is positioned around one or more strategic driving forces, originating from Tregoe and Zimmerman (1980). The driving forces are subject to the economic context. Depending on which driving force is pursued, one or more real estate strategies are suitable to support the specific driving force (Scheffer, Singer et al. 2006). Whether or not the real estate strategies add value to the business depends on the corporation's attitude towards real estate and the position in the organization, which is illustrated by the theory of Joroff (1993). The linkage between the research elements is different for every case studies corporation.

Two models are designed to predict and describe the linkage or alignment between the elements: (1) the impact matrix and (2) the real estate classification model. The alignment between the credit crunch (economic context) and the corporate performance (business results), i.e. the impact of the credit crunch on the business activities, is determined by three factors: (1) the volatility of a the corporation's sector or industry relative to the overall market, expressed by the sector beta; (2) the geographic diversification of the corporation's activities; and (3) the dependence of the corporation on (external) cash flow. The alignment between corporate and real estate strategy, i.e. the impact of the business activities on the

real estate activities, is determined by the real estate classification model. The classification model considers the purpose – customer or production – and type – generic (market-conform) or specific – of real estate. In general, a corporation that has a high beta coefficient, is geographically undiversified and dependent on external financing, which operates consumer-specific real estate, is affected the strongest by the credit crunch.

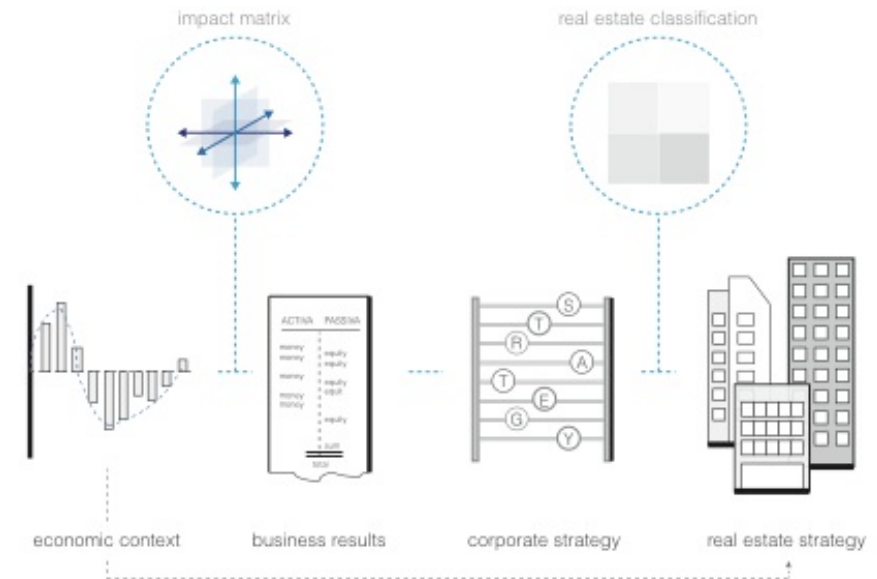


Figure 2: Alignment: impact matrix and classification model

The economic context is described on three levels: the global financial market, sector business market and local real estate market. Social and sector-specific trends and events determine day-to-day activities. Some trends are unpredictable, others are inevitable, but all provide opportunities. The introduction of the Internet has resulted in major changes in our social and economic behaviour; the rise of emerging, in particular Asian, economies in the past decade have triggered a shift in dominance; and the turmoil in the Middle East has significantly impacted oil prices globally. The local real estate market is confronted with dropping employment rates and the implementation of new ways of working, which have decreased the demand for office space. The vacancy level of the Dutch office portfolio has

risen drastically; average rent levels have decreased, with the exception of A-locations such as the Amsterdam South-axis. The current real estate market is dominated by supply, ensuring favourable conditions for corporations that are active on the demand side. The impact of the credit crunch on the business activities of a specific corporation is dependent on how the corporation responds to these trends, events and conditions.

The research demonstrates that there are two completely contradicting responses towards the credit crunch, corresponding with the research of Michael and Robbins (1998) and Gibler and Lindholm (2011). Those corporations that are hit the hardest by the credit crunch – AkzoNobel, ABN AMRO and ING – adopt a (1) conservative approach. Declining revenues and increasing costs forces them to set aside growth ambitions and focus on profitable operations. All have switched from a 'differentiation' strategy to a 'focus' strategy. Those corporations that have shown to be relatively impervious to the recession use the credit crunch to (2) increase competitive advantage. The economic context gives sufficient them opportunities to. To some, the impact of the credit crunch has been stronger than expected, forcing them to respond much more radical than experienced before.

The corporate response brings about change in the organizational structure of the corporations: it 'upgraded' the existing real estate management practices to a more strategic role. The credit crunch makes corporations aware of the opportunities to reduce costs of (and with) real estate; they are not so much aware of other added values. Most corporations adopt the role of 'dealmakers': this means that the corporate real estate departments reduce risk by creating flexibility and reduce costs by creating portfolio efficiency. The lack of responsibility withholds the real estate departments from adding value to other corporate objectives.

The corporations almost unanimously respond to the uncertainty in the markets with an 'incremental' approach towards real estate management. The two most common real estate strategies pursued during the financial crisis are reducing costs and increasing flexibility. The primary strategic response was portfolio reorganization, especially for those corporations that (still) used a re-active approach towards real estate management. Portfolio reorganization included gaining quick wins by disposing property and enabling structural cost savings by increasing flexibility and portfolio efficiency. Corporations that use real

estate for commercial purposes enabled quick and efficient action, compared to those corporations whose primary purposes are production. Corporations that have been able to grow and expand during the credit crunch, make use of the real estate market to gain competitive advantage. The real estate market provided the opportunity to renegotiate lease contracts. The portfolio reorganization provided the opportunity to implement a new working concept and increase satisfaction among employees. On the long-term, the credit crunch has changed the financial considerations regarding real estate management. In order to reduce risk, decision-making has become more conservative. The portfolio required a certain level of flexibility. Real estate disposals were generally put on hold. Pursuing increase of property value in the current real estate market is unreasonable, and will still be unreasonable for the coming years. Innovation and sustainability are on-going themes, but commonly not favoured during recession for this requires (major) investments.

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A. INTRODUCTION

The introduction provides insight into the research background and research method. It walks through the subject, design and structure of the research.

1 RESEARCH BACKGROUND

The research background provides a general introduction to this research. It makes the reader acquainted with the content and structure of the report. It describes the problem statement, the research motivation and the research main- and sub questions. The chapter closes with the reader's guide.

1.1 PROBLEM STATEMENT

The world is under the spell of the global recession. The threat of collapse of large financial institutions and the major downturns in stock markets all around the world have influenced business and consumer trust in the preceding years. The financial crisis directly influences corporate business results and strategy:

"Businesses cut back on spending to conserve cash, particularly on investment spending that can be deferred or delayed" (Pearce and Michael 2006).

Corporations improvise and steer through the financial crisis – trying to come out stronger – thereby ignoring the possible added value of real estate. With real estate being the second largest cost factor on the balance (after human resources), its impact on the business is significant (Hwa 2003; Heywood 2008).

Corporate real estate strategies emerged in the 1990s, when senior management largely emphasized cost reduction and operations up until the mid-1990s (Nourse and Roulac

1993). Recent research has shown that 75% - 85% (Heywood 2008; Roulac et al. 2005; Acoba and Foster 2002) of the global corporations has either a formal real estate strategy, or at least references regarding real estate in their corporate mission and objectives. As already concluded by Joroff et al. in 1993, real estate can add value to the company. Joroff et al. (1993) proclaimed real estate to be considered the 5th resource, next to people, technology, information and capital. Although this statement has never been formally acknowledged, it is generally known that real estate is related to all four resources.

"In many organizations the role of the operational real estate assets are still considered no more than a cost to business, an overhead that does not warrant serious management considerations" (Then 2005).

In order to create sustainable competitive advantage and add value to the organization, a well thought real estate strategy is indispensable (Heywood and Kenley 2008). Ideal real estate strategies do not exist. Real estate is static and long lasting; flexibility is limited. If real estate departments are professionally organized, loaded with decent strategies and operations, they are still often underestimated (Roulac, Adair et al. 2005). The direct added value of professional real estate management is consequently often considered to be of no value (Krumm and Vries 2003).

"It is imperative for firms facing difficult decisions during an economic recession to understand how their corporate real estate strategies and the resulting operating decisions are related to core business strategy" (Gibler and Lindholm 2011).

There is still little scientific and practical understanding of real estate strategies within corporations (Roulac, Adair et al. 2005). Moreover, there is scarcity in research relating corporate real estate strategies with external business dimensions, for as Heywood and Kenley (2008) put it: "Business dimensions external to the organization are probably of more interest to senior and business unit managers" (Heywood and Kenley 2008). Former on-topic research is largely locally oriented – Gibler and Lindholm (2011) and Heywood (2008) -

dealing with changing market conditions and different external influences. In addition to the problem of uniformity, corporations are often unwilling to share their strategic operations, making it even harder to perform in-depth research.

"Recessions are a godsend for they strain management capabilities to their limit, and they are, therefore, a natural setting in which to study how firms cope with environmental challenges" (Geroski and Gregg 1994).

The credit crunch provides the opportunity to determine the role and importance of corporate real estate to the business. The gap in knowledge is acknowledged by Gibler (2011): "Research has not been undertaken to determine whether corporate real estate strategies are in alignment with the firm's core strategies and whether real estate resources are being efficiently employed to achieve sustainable competitive advantage during the economic recession" (Gibler and Lindholm 2011). The research makes it able to anticipate on external factors, now and in the future.

1.2 RESEARCH QUESTION

The main objective of the research is to demonstrate the relationship between corporations' corporate strategy and real estate strategy, provided the economic context. Therefore objectives include providing an understanding of corporate real estate management within corporations from different sectors, i.e. in companies with different cultures and backgrounds; establishing the importance of real estate to create added value or sustainable competitive advantage; and ultimately, measuring the relative impact of financial-economic developments on the real estate activities. Question is how corporate and real estate strategy relates, by investigating corporations' specific actions and decisions concerning real estate that were made in the past two decades: are real estate activities consistent with the corporate strategy? How many of these activities (decisions) have been purely dependent on the state of affairs of the sector and the economic context?

1.2.1 MAIN RESEARCH QUESTION

The central research question is:

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The research question is straightforward. It assumes a direct relationship between the economic context and a corporation's real estate strategy. The effect of the credit crunch is established over a specific twenty-year timespan, by a comparison between monitoring points prior to and during the crisis.

1.2.2 SUB-QUESTIONS

The sub-questions are related to the research themes: the different steps (elements) in the cause-effect process. The sub-questions are applicable on the individual case studies.

Theoretical framework

- (1) Which variables define the impact of the economic context on the business results of a multinational corporation?
- (2) How can corporate strategy be classified?
- (3) Which factors influence the degree of alignment between the corporate strategy and the real estate strategy?
- (4) How can the corporate attitude towards real estate be classified?
- (5) How can real estate strategy be classified?

Economic context

- (6) Which main events have dominated the global environment in the past twenty years?
- (7) What is the credit crunch and how did it occur?
- (8) Which relevant indicators define the macro-economic context?

- (9) Which relevant indicators define the sector performance?
- (10) Which relevant indicators define the local real estate market?

Case studies

- (11) What is the impact of the credit crunch on the business results?
- (12) How did the corporate strategy change, influenced by the credit crunch?
- (13) What defines alignment between corporate and real estate strategy?
- (14) How did the corporation's real estate strategy change, influenced by the credit crunch?

Cross-case analysis

- (15) What is the common response of the corporate strategy to the credit crunch?
- (16) Does the credit crunch bring about organizational change?
- (17) What is the common response of the real estate strategy to the credit crunch?
- (18) What cross-case observations can be generalized?

1.3 READERS' GUIDE

The research is divided into six sections. These sections represent steps in obtaining the final research product. The sections, labelled A to F, are shown in Figure 3.

Section A is the introduction of the research. It gives the reader insight in the way the research is executed. It sets out the research design and the data collection process.

Section B is the establishment of the theoretical framework. It explains the reader how the research elements relate to each other and which models influence these relationships. Above all, it illustrates which business and real estate theories can be used to classify the

gathered data. Section B closes with the construction of the theoretical framework. Section C lays the financial-economic foundation for the research on global, sector and local level. The reader learns about the origin and characteristics of the credit crunch. The section describes the macro-economic context and presents the development of the primary financial-economic indicators. An introduction in the Dutch real estate market is given. At the end of the section, the reader should have a decent understanding of the development of the economic context over the past two decades.

Section D is dedicated to the case studies. It pictures the development of the business results, corporate and real estate activities of six multinational corporations, based on all the relevant data gathered during the entire research. The corporations are divided per industry (sector). Every case study is summarized by means of a graphic overview. Section E puts the case studies in perspective by reflecting the theoretical framework upon them. It explains, and graphically illustrates, the changes over time, according to theory. The theoretic reflection of every case study is summarized by means of a graphic overview.

Section F is the synthesis. It presents the cross-case analysis and synthesis, in search for common ground.



Figure 3: Readers' guide

2 RESEARCH METHOD

The research method explains the way the research is structured and executed. It elaborates on all steps taken to come to the final product. It sets out the research design, the data collection process and the case studies content. The research techniques are illustrated, including the interview schemes.

2.1 RESEARCH DESIGN

The research structure consists of four elements. These are (1) the economic context (credit crunch), (2) the business results, (3) the corporate strategy and (4) the real estate strategy. All elements have to be ran through and linked to be able to elaborate on the research problem and finally answer the central research question: 'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

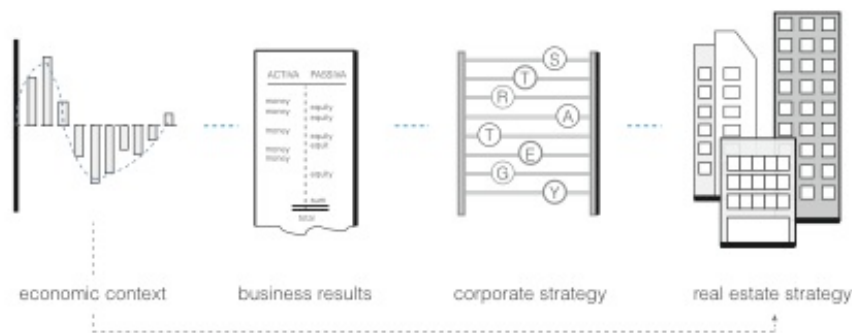


Figure 4: Conceptual model: research elements

The research design (Figure 5) is constructed to gather the required data in the right, consecutive phases to be able to proceed with the research. The research design is divided into three consecutive stages. The stages are methodology, case studies and synthesis. The central research question and sub-questions are related to the different stages.

2.1.1 METHODOLOGY

The methodology phase is dedicated to the preparation of the case studies. It is divided into two sub-phases: (1) acquiring basic financial-economic knowledge and (2) laying the foundation for the financial-economic research elements: the research framework. The research framework is designed to make all research elements measurable. Before entering phase two, all the ins and outs of the credit crunch are documented.

2.1.2 CASE STUDIES

In the second phase, two research steps are taken simultaneously. The business analysis is performed to sketch the business results of the different case studies subjects; at the same time, the corporate activities and strategy are pictured. The data gained is processed and mapped. The data serves as input to the preparation and execution of the practical case studies: the interviews. In the interviews, the interviewee is asked to relate corporate real estate management practices to the business results and corporate strategy. All cases are classified by sector, before entering stage three.

2.1.3 SYNTHESIS

In stage three: synthesis, the case studies are connected. The data is interpreted and reflected upon by literature. The case studies comparison in, and between sectors will be presented in the cross-case analysis; the final cause-effect diagrams and (sub-)conclusions are constructed in the sector-analysis. The knowledge gained is transformed into conclusion and recommendations.

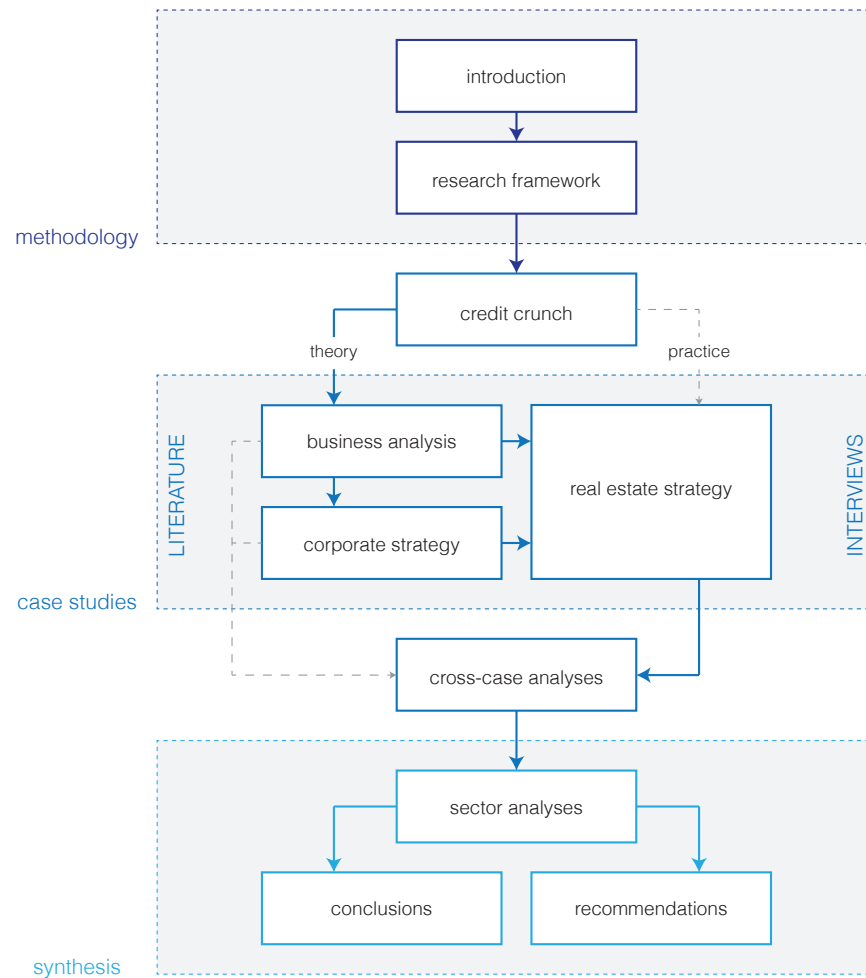


Figure 5: Research design

2.2 RESEARCH METHODS

The research is qualitative from nature. It's objective is to understand the correlation between different independent variables: i.e. to interpret and explain the cause-effect relationships within corporate strategic decision-making. Therefore, the research has both a correlational and exploratory aspect. The research is classified as explanatory.

The research method applied to collect, analyse and compare information is case studies, both theoretical and practical. These are quantitative and qualitative research, i.e. the case studies consist of two parts: the (1) theoretical case studies and the (2) practical case studies. The theoretical case studies are used to determine the development of the business results and the corporate strategy through indicators. These indicators are selected on the basis of financial-economic literature. The practical case studies are carried out to gather additional in-depth information on the corporate course and real estate strategy, by interviewing both corporate and real estate managers.

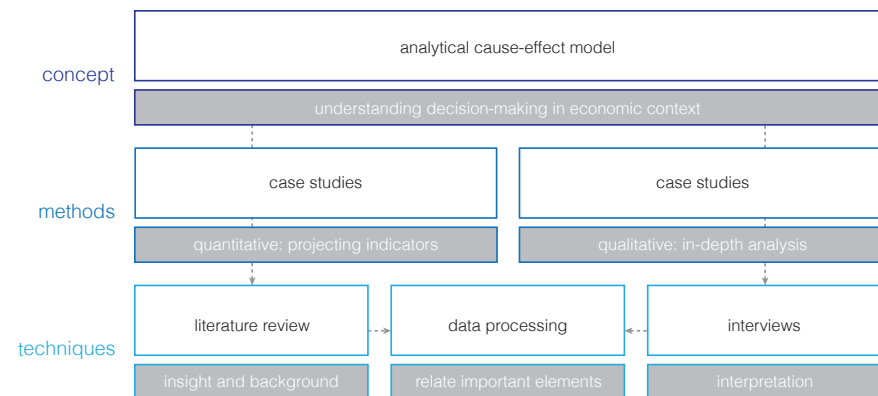


Figure 6: Research methodology

The indicators will be tracked and analysed over a period of twenty years: 1993 – 2012. The timespan is sufficient to alert changes in the corporate strategy: it is the plurality of one strategic cycle (5 years) and includes the 2007 credit crunch.

2.3 CASE STUDIES SELECTION

The case studies selection is based on multiple criteria. First and foremost, the quantity of the case studies has to be sufficient to draw sound conclusions. This means that it has to be possible to compare individual case studies with each other, as well as one sector to another sector. This is based on the desire to alert and analyse inter-sectoral differences. Six case studies are selected, divided into three sectors: two case studies per sector.

Furthermore, the corporations have to be comparable in size and maturity to rule out as many factors as possible other than the economic context. They all have to be based in the Netherlands, for the research looks into the Dutch real estate market. Therefore, solely Dutch multinational corporations have been selected, all with a rich history and strong brand. Finally, the selected sectors have to be completely different in the way that they are impacted (affected) by the credit crunch. The stronger the sector is affected by the credit crunch, the stronger the impact on the real estate strategy is expected to be. The sector type also relates to the type and importance of real estate: sales corporations hold different real estate than industrial corporations.

Concluding, the selected sectors and corporations are divided into three sectors. The sectors offer completely different products and services. They have their own company specific driving forces and other target groups. The assumption is that they adopt different management styles. They are affected by the financial crisis on different levels. The sectors and corporations are:

Sector	Company	Details
Fast Moving Consumer Goods	(1) Ahold (2) Unilever	Production of primary needs. An industry that will always keep on going.
Industrial Goods	(3) AkzoNobel (4) Shell	Production of industrial goods, such as oil. Corporations with a globally spread and diversified portfolio.
Financial Services	(5) ABN Amro (6) ING	Still suffering from the economic crisis. Faced internal reorganizations and corporate restructuring. Forced to cut costs.

Table 1: Case studies selection

2.4 DATA COLLECTION

As already illustrated in Figure 6, three different case studies techniques are differentiated. These techniques are applied in different stages of the research.

- (1) Literature review: spitting through financial and economic literature and selecting appropriate indicators to picture the markets;
- (2) Data processing: gathering and connecting data from case studies;
- (3) Interviews: interviews with corporate and real estate managers to acquire in-depth information.

During the research, use is made of theoretical replication between the case studies. This means that information and ideas from a single case study are used in the handling of future case studies. The case studies method is cyclical. Goal is to acquire as much knowledge as possible.



Figure 7: Economic context: three markets

2.4.1 LITERATURE REVIEW

In the first stage, the literature review is used to lay the foundation of the research: the economic context. The economic context is defined by a selection of appropriate (relevant) markets and indicators. This sets the boundaries of the research. The selection procedure of the indicators is clarified per sub-market, shown in Figure 7. These are the (1) financial market (global), (2) business market (sector) and (3) real estate market (local). In addition,

the selection of the indicators to measure (4) the business results is explained. These are implemented in the next phase: the case studies. Ir. Louk Heijnders assisted in the selection of the financial-economic indicators.

2.4.1.1 Financial market (global)

To be able to sketch the overall economy, use is made of a selection of indicators, which are projected on the relevant continents. After all, the only way to test the impact of the financial crisis is to compare different stages of the economy on different locations. The references to the global economy are used to put everything in perspective. The relevance of the indicators is important: the selected indicators must show the effects of the financial crisis on the business environment globally. To picture the macro-economic environment, use is made of three independent institutions that perform, or have performed, global and national research on the (business) competitiveness of both countries and corporations:

- (1) Het Nederlandse Ondernemingsklimaat (2006 – 2012);
- (2) The Global Competitiveness Report – World Economic Forum (2012 – 2013);
- (3) IMD World Competitiveness Yearbook – Institute of Management Development.

All make use of comparable themes to classify the sorts of competitiveness: (1) macroeconomic conditions, (2) human resources, (3) capital, (4) entrepreneurship, (5) innovation and (6) society. This research primarily looks into the global macroeconomic environment, for the macroeconomic parameters are applicable and comparable globally.

2.4.1.2 Business market (sector)

A sector or industry defines the type of activities of the corporations belonging to that sector. These activities tell something about the corporations' business models, including goals, objectives and resources. Pearce and Michael (2006) pointed out: "Recessions will affect industries differently, depending on whether they are cyclical, counter-cyclical or non-cyclical" (Pearce and Michael 2006). Next to financial-economic factors, social and geographical influences have to be considered as well. It is important to understand the market characteristics – such as size, competitiveness, geography, target group and innovation – to understand the role and performance of a corporation within that sector.

The indicators used to picture the sector market are established after analysing different sector reports published by, among others, branch organizations (e.g. FNLI & GfK and

ICIS), consultancy firms (e.g. McKinsey & Company and Accenture) and researchers (e.g. Pearce and Michael). On the basis of these reports, questions can be raised: How big is the market? How is the market geographically organized? How do the target groups develop? What are the major market players? Where is the market heading? These and other questions have been transformed into three comprehensive themes that relate to the impact of the economic conjuncture on the specific sectors: (1) business development, (2) geographical development and (3) social development.

2.4.1.3 Real estate market (local)

The real estate market sets the accommodation conditions for any corporation that is participating in the Dutch business market. The conditions have great influence on the decision-making process of corporate real estate managers. The real estate market is narrowed down to offices, business units, retail and production facilities. The indicators to define the Dutch real estate market are selected with the assistance of Ir. Monique Arkesteijn.

2.4.1.4 Business results (corporate)

The business results represent the financial performance of the individual case studies subjects. The indicators make it possible to compare the performance of the corporations objectively. The data is required to reflect and explain changes in corporate and real estate strategy. The business results have to represent the economic conjuncture and show instant growth and decline. At first, nine indicators were selected after studying multiple corporate balance sheets.

However, business results do not tell the whole story. Corporations can use complicated financial constructions – within the boundaries of the law – to brighten their annual results. Besides, the acquired data is difficult to compare for a number of reasons. First, corporations have worked with changing accounting principles over time. Accounting principles are the guidelines – standards, conventions and rules – that accountants follow in constructing financial statements. Second, the timespan beholds different currencies: the Netherlands, along with the Eurozone countries, has turned in its national currency (the guilder) in 2001 to introduce a European wide currency: the Euro. Most corporations have converted pre-Euro accounting data into Euros after the introduction of the currency

themselves. However, there are corporations that use a different currency: Shell for instance publishes its financial statements in dollars, as America is its biggest sales market.

Themes	Indicators
Corporate business	(1) Net sales
	(2) Gross profit
	(3) EBITDA
	(4) EBIT
	(5) Net income
Human resources	(6) Number of employees
	(7) Number of FTE's
Capital	(8) Investment in research and development Investment in corporate responsibility
Entrepreneurship	
Innovation	
Real Estate	(9) Property, plant and equipment

Table 2: Concept indicators business results

This insight has led to the decision to use only a limited number of indicators, simple and effective, to ensure sound data. These indicators are the least exposed to difficult accounting constructions, such as the sales revenues and net profit. Indicators of which the soundness and completeness could not be guaranteed and/or which did not directly contribute to answering the research question – such as investments – were repealed.

2.4.2 DATA PROCESSING

2.4.2.1 Indicators

In the first stage, the relevant indicators have been selected. To picture the indicators, a lot of data is required. The data is extracted from numerous sources. The economic context is pictured with data from leading companies in the financial news and research world, such as Bloomberg, Yahoo! Finance, Thomson Reuters and the Financial Times. Data regarding the sector trends is found in the same research reports that the indicators have been established from: branch organizations, consultancy firms etcetera. The real estate market is pictured using well-known local sources such as the commercial real estate companies DTZ

Zadelhoff and CBRE, as well as governmental institutions such as the CBS and CPB. The business results are gathered from annual reports, corporate statements and financial-service providers.

Although the data is publicly available, some elements could not be found; sometimes the same data differed per source. Therefore, all data is verified with one, or sometimes even multiple other sources. Once verified, the data is processed using Excel and graphically mapped.

2.4.2.2 Corporate and real estate strategy

Next to the economic context and the business results, this phase also includes the mapping of the corporate strategy and activities. These are extracted from corporate statements (publications), newspapers, research reports, journals and all other open sources available. All data is archived per corporation and chronologically ordered.

2.4.2.3 Discussion document

The combination of all data has been summarized in a company specific discussion document. All six documents have been presented to a financial expert – Dimitri Willems from investment bank Kempen & Co – to reflect upon the data. In the last step, the documents – which now contain a summary of the economic context, specific sector information (trends), corporate business results and corporate strategy – are complemented with all available information regarding a corporations' real estate activities. This information is extracted from former graduation projects and research articles. The real estate information is chronically ordered per theme. These themes differ per corporation, depending on the type of information that is gathered. The themes are amplified in Paragraph 2.4.3.1. Once the discussion document is finished, it contains information on all elements of the research. The discussion document is now ready to be analysed and transformed into interview questions.

2.4.3 INTERVIEWS

The interviews are the most important data source. The interview is used not only to collect additional data, especially on the corporation's real estate activities, but also to reflect upon the data from the literature research. The goal of the interview is to relate all research

elements to each other. It was desirable to interview both real estate and corporate managers; this has not been possible for all case studies subjects, although in those cases the real estate managers were well able to make the connection with the business themselves.

Name	Company	Function	Date
Dimitri Willems	Kempen & Co	Senior Portfolio Manager Kempen Capital Management	June 3 rd , 2013
Henk Schaap	ABN AMRO	Hoofd Portfolio Management	June 17 th , 2013
Herman Dekker		Programmamanager Herhuisvestingsprogramma	June 17 th , 2013
Wouter Kromkamp	Ahold	Senior Manager Acquisition Region EU Special Projects	July 1, 2013
Joris Janssen		Business Controller	July 1, 2013
Roland Huitink	AkzoNobel	Director Real Estate	September 30 th , 2013
Ad Hagedoorn	ING	Senior Manager Local Real Estate Management	October 23 rd , 2013
Mike Napier	Shell	Executive Vice-President Real Estate	December 19 th , 2013

Table 3: Research interviews

The research questions are of an open nature. This means that the questions are constructed to start an open dialogue on the selected themes to acquire as much information as possible. The research questions are the result of the analysis and connection of all elements in the discussion document. The interviewees are asked to reflect upon these pre-defined observations and statements. The more detailed the pre-constructed discussion document is, for instance because there were already multiple research projects on that specific corporation available, the more specific the research questions are formulated.

2.4.3.1 Interview themes

The themes handled in the interview originate from the literature research. They represent the common information found in the research documents. The themes did need to relate to the corporate strategy. This means that decisions regarding the themes had to be explainable on macro-level. Subjects that have come forward are the organization, the

portfolio, the financial considerations and the strategy. The interview focuses on these themes, but leaves room for other subjects. The questions are directed towards a specific period; the interviewee is asked to explain the changes over time. The actual response to the credit crunch was preferably handled last, to put it in perspective of former real estate strategies and activities.

2.4.4 SYNTHESIS

The information gained from the interviews is added to the discussion document. This document is written into a full case study, including all themes and covering the full timespan. A summary of the case study, fully focused on the response to the credit crunch, is included in the report. Subsequently, the case study is reflected upon the theoretical framework, which is constructed in Section C. From there on, the theoretical frameworks of all case studies subjects are compared to each other; conclusions are drawn. This is done on three levels: an individual analysis, a sector analysis and an inter-sector analysis.

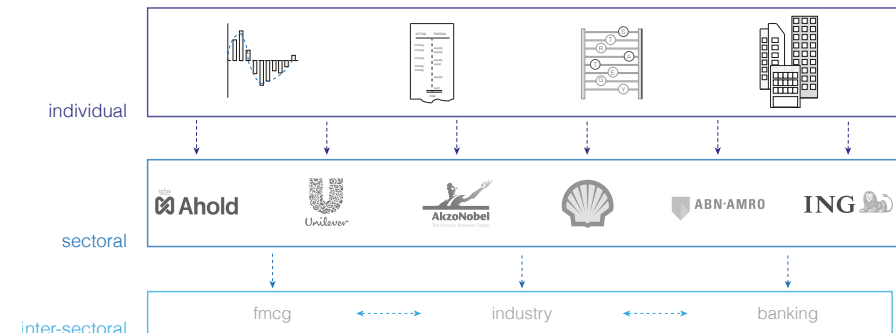


Figure 8: Case studies structure

This means the first perspective emphasizes on differences in strategic course within one specific sector. Take for instance the handling of multinationals in the Fast Moving Consumer Goods sector, when influenced by the same external factors: the context is the same. On the next level, inter-sectoral differences give insight in real estate management practices in corporations from a different sector, which are steered by other business models, values and objectives.

B. THEORETICAL FRAMEWORK

The theoretical framework makes it possible to put the answers on the research question – *‘What is the effect of the credit crunch on the real estate strategy of a multinational corporation?’* – in perspective and classify the strategic changes over time.

3 ECONOMIC CONTEXT

The financial-economic indicators lie at the basis of the theoretical framework. The indicators picture the economic context, which consist of three markets shown in Figure 9: the global financial, the sector business and local (Dutch) real estate market. The indicators used to sketch the performance of the markets are summarized in the conceptual model at the end of this chapter: Figure 10.



Figure 9: Economic context: three markets

The economic context is pictured in Section C, comprising the financial market (Chapter 9) the business market (Chapter 10) and the real estate market (Chapter 11). The business results are integrated in the case studies, described in Section D.

Which relevant indicators define the macro-economic context?

3.1 FINANCIAL MARKET (GLOBAL)

On the basis of the research described in Paragraph 2.4.1.1, the following indicators are selected:

Indicators	Description
Stock Exchange Indices	Average value derived from price movements of certain stocks.
Consumer confidence	Degree of optimism that consumers are expressing for the state of the economy.
GDP Growth	Overall market value of all goods and services produced in a country in a given year, which represent all consumer, investment and government spending, plus the value of exports, minus the value of imports.
EURIBOR interest rate	Average interest rates at which the vast majority of European banks (around 50 panel banks) lend money to one another.

Table 4: Indicators financial-economic (global)

To assess the suitability of the indicators, use is made of multiple criteria (CBS, 2010):

- (1) Validity: does the indicator measure what it is supposed to measure?
- (2) Objectivity: is it independent and based on facts?
- (3) Availability: is it continuously available within the given timeframe?

Indicators	Validity	Objectivity	Availability
Stock Exchange Indices	Relation stock market index – consumer trust	Weighted average most important corporations	Publicly available (1971)
Consumer confidence	Spending habits globally	National independent institutions	Publicly available
GDP Growth	Economic development	Global independent institutions	Publicly available
EURIBOR interest rate	Confidence between financial institutions	Weighted average 50 largest banks	Publicly available (1999)

Table 5: Indicators economic context (global)

Which relevant indicators define the sector performance?

3.2 BUSINESS MARKET (SECTOR)

To understand the development of the sectors, it is important to monitor the development of the following aspects over time:

Indicators	Description
Sales numbers	Development size in volume and money
Geographic distribution	Development regional sales
Target groups	Development social and financial situation

Table 6: Indicators industry performance (sector)

3.2.1 SALES NUMBERS DEVELOPMENT

The development of the sectors' sales numbers describes the size of the industry in volume and money over the past two decades. It outlines trends and events that influence, or have influenced, the size of the industry. The indicator provides a framework to assess the size and performance of the individual companies within the sector.

3.2.2 GEOGRAPHIC DISTRIBUTION

The geographic distribution illustrates the regional focus of the sector over the past two decades. It focuses on markets in which the multinationals are, or will be active. The indicator is used to put corporate strategy and activities of the individual companies within the sector in perspective.

3.2.3 TARGET GROUPS

The development of the target group(s) describes the social and financial specifications of the sectors' target group(s). This indicator illustrates the characteristics and buying power of the target group of the sector in order to determine the dependence of the sector on the economic conjuncture.

Which relevant indicators define the local real estate market?

3.3 REAL ESTATE MARKET (LOCAL)

The local real estate market is developing due to different social and economical trends. To be able to picture the development of the market, four indicators that are representative for the Dutch real estate market are determined:

Indicators	Description
Employment rates	Development of the full-time and part-time employment
Office supply	Total supply compared with take-up level
Office vacancy	Total vacancy – frictional vacancy
Rent level office market	Average rent level in big cities (G4)

Table 7: Indicators real estate market (local)

3.3.1 EMPLOYMENT RATES

Development of the full-time and part-time employment rates in the Netherlands published by CBS.

3.3.2 OFFICE SUPPLY

The office supply is compared with the take-up level of the market in order to capture the actual transactions.

3.3.3 OFFICE VACANCY:

The development of the office vacancy refers to the percentage of the stock of space in the market that is currently not occupied.

3.3.4 RENT LEVEL OFFICE MARKET:

The development of the average Dutch rent level of the office market, with special attention to the G4: Amsterdam, The Hague, Rotterdam and Utrecht.

Which relevant indicators define the business results?

3.4 BUSINESS RESULTS (CORPORATE)

The indicators are used to sketch the overall organizational and financial performance of the each and every single multinational. Use is made of the quantitative change in performance to explain changes in strategy.

Indicators	Description
Stock exchange indices	AEX index, Amsterdam
Net sales revenues	Gross sales – (Customer Discounts, Returns, Allowances)
EBITDA	Gross profit – (Selling, General and Administrative Expenses)
Net profit	EBIT – Interest expenses – Tax expenses
Number of employees (headcount)	The total number of employees employed by the multinational
Number of FTEs	globally, at the end of the year.

Table 8: Indicators business results (per corporation)

From 2005 onwards, all listed European corporations have been forced to use IFRS – short for International Financial Reporting Standards – in order to create a common language. IFRS is designed to make corporate balance sheets understandable and comparable across international boundaries. IFRS works on the basis of fair value: "Fair value accounting is a financial reporting approach in which companies are required or permitted to measure and report on an on-going basis certain assets and liabilities (generally financial instruments) at estimates of the prices they would receive if they were to sell the assets or would pay if they were to be relieved of the liabilities" (Ryan and Marwick 2008). IFRS is increasingly important for corporations with global activities and has replaced the numerous (national) accounting standards. The lack of uniformity in accounting principles has resulted in a discrepancy between the accounting principles from and between corporations preceding and following 2005.

3.4.1 STOCK EXCHANGE INDICES

The stock exchange indices of the individual multinationals are used to illustrate the confidence of the market in the corporation. As all individual stocks together form the AEX index, there is a direct relationship between the stocks and the index. Moreover, the stock prices are heavily influenced by the economic conjuncture. The stock price therefore might not be representative for the performance of the multinational. The course of the stock and the AEX index are compared to be able to appoint irregularities in the individual stock price. Those irregularities can be used to observe strategic changes.

3.4.2 NET SALES REVENUES

The net sales are the amount of sales generated by a company after the deduction of returns, allowances for damaged or missing goods and any discounts allowed (Investopedia 2013).

$$\text{Net sales} = \text{Gross sales} - (\text{Customer Discounts, Returns, Allowances})$$

The net sales, revenues are dependent on (1) the economic situation and (2) the competitive position of the corporation. The net sales give an indication of the size of the corporation.

3.4.3 EBITDA

EBITDA is short for Earnings Before Interest, Taxes, Depreciation, and Amortization. It equals the sales revenue minus cost of goods sold and all expenses except for interest, amortization, depreciation and taxes. The EBITDA of a company gives an indication on the operational profitability of the business, i.e. how much profit does it make with its present assets and its operations on the products it produces and sells, taking into account possible provisions that need to be carried out.

$$\text{EBITDA} = \text{Gross profit} - (\text{Selling, General and Administrative Expenses})$$

3.4.4 NET PROFIT

Net profit or net income represents a corporation's total earnings or profitability. It is computed as the residual of all revenues and gains over all expenses and losses for the period, and has also been defined as the net increase in stockholder's equity that results from a company's operations (Investopedia 2013).

$$\text{Net profit} = \text{EBIT} - \text{Interest expenses} - \text{Tax expenses}$$

The net profit is the result of income minus costs. The profit is important to determine the financial status of the corporation. The net profit might include one-off earnings or costs (exceptionals), for example from acquisitions or disposals; for this research however, we are focused on the profit from day-to-day operations (continuing operations). Not all corporations provide the preferred data up to 1993, such that in several cases use is made of the (final) net profit.

3.4.5 NUMBER OF EMPLOYEES & FTES

The total number of employees employed by the multinational globally, at the end of year x. This includes both full-time and part-time employees. More accurate is the total number of FTEs (fulltime-equivalent) globally, at the end of year x. This is the ratio of the total number of paid hours during a period (part time, full time, contracted) by the number of working hours in that period Mondays through Fridays (usually 40 hours). One FTE is equivalent to one employee working full-time. Since we monitor the change of the totals, it does not matter which method is used, as long as it is only the one or the other. The total number of employees includes foreign personnel. These company specific details are presented per case.

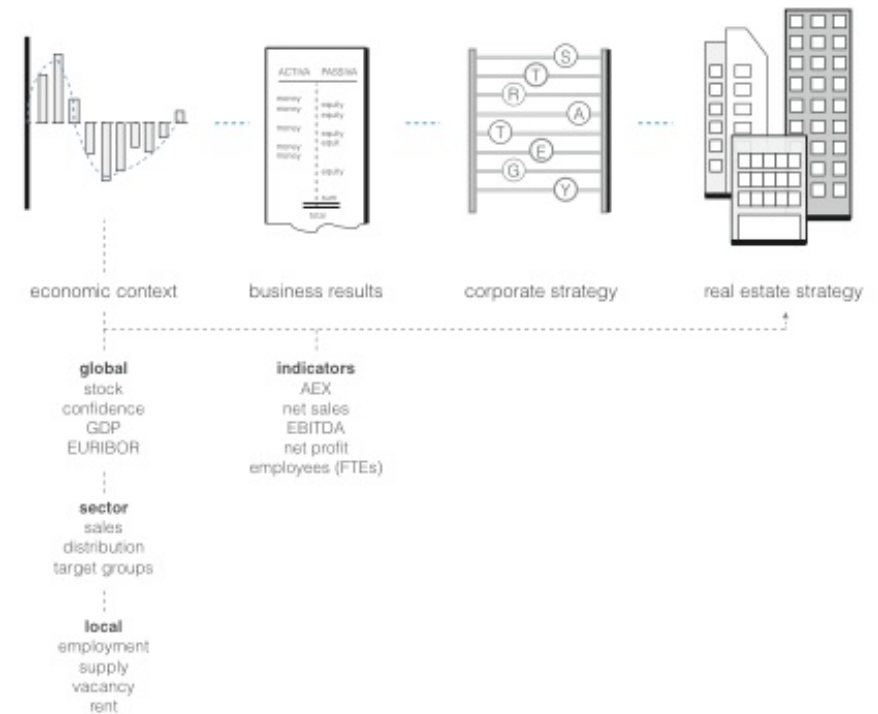


Figure 10: Conceptual model: financial-economic foundation

4 IMPACT MATRIX

During recession, there are several common macro-economic developments that influence the business results of corporations: "In times of recession, unemployment rises, credit becomes less available, consumers are unwilling to spend and competitors engage in price-cutting and other desperate moves to produce sales" (Pearce and Michael 2006). This is partly true. Not all corporations, or competitors as Pearce and Michael phrase it, are impacted the same way. The impact of the financial crisis on the real estate strategy is only a result of the impact of the financial crisis on the business of the corporation. The impact of the crisis on the specific business is determined by three factors that together form the 'impact matrix': (1) sector beta, (2) geography and (3) external financing. The credit crunch impact matrix is shown in Figure 11.

Which variables define the impact of the economic context on the business results of a multinational corporation?

Sector beta

The sector beta is used to illustrate the impact of the economic conjuncture on the business performance of a sector and its related companies. The sector beta (β) expresses the volatility of a sector or industry relative to the overall market. In other words: the sector beta expresses the actual impact of the financial crisis on the business results of the corporation. In any case, beta measures relative risk to the market, not the risk of the market itself (Britt 2013).

A sector or individual stock with a beta of 1.0 fluctuates in price at the same rate as the market does. The higher the beta, the more sharply the value can be expected to fluctuate in relation to a market index. Stocks that have a beta bigger than 1 have greater price volatility than the overall market and are more risky; stocks with a beta lower than 1 have less price volatility than the market and are less risky. Risk also implies return. Stocks with a high beta should have a higher return than the market.

$$\beta = \frac{\text{Cov} [\text{Return}_{\text{stock}}, \text{Return}_{\text{Index}}]}{\text{Var} [\text{Return}_{\text{Index}}]}$$

Table 9: Formula Beta Coefficient (Jan 2013)

Sectors ranked lowest in beta are things people buy in good times and bad, such as consumer goods and utilities. Companies like Unilever and Ahold also tend to have high brand name loyalty and do therefor not see large fluctuations in sales from year to year (Zacks 2011). Sectors with a high beta are more market sensitive, i.e. more sensitive to economic downturn.

The disadvantage of stock betas is that they are based on historic information and don't incorporate current news: past price movements are not good predictors of future movements. The discrepancies in the actual beta values reported depend on the calculation formula used, the number of values used in the calculation, and the comparator index (Little 2013). This research makes use of data provided by Yahoo! Finance.

The higher the beta, the stronger the impact of the credit crunch on the business is expected to be.

Geography

Recessions hit economies or regions; in this case, the credit crunch hit the Western economies and especially the United States and Europe. Along the way, it has gradually started to affect other large economies such as China. Being active in multiple countries causes the case studies subjects (multinationals) to experience changing economic effects due to local differences. Pearce and Michael (2006) explain: "When the economy contracts

in one part of the world, it usually expands, or at least is stable, in other parts" (Pearce and Michael 2006).

Due to the size and versatility, multinationals are able to respond to local opportunities in upcoming industries and/or nations. Their focus can shift over time. This means that in theory, multinationals that dispose of the right resources should be able to 'outrun' the economic downturn in one region, to take advantage of economic prosperity in another.

The lower the geographic diversification (i.e. undiversified), the stronger the impact of the credit crunch on the business is expected to be.

External financing

In times of crisis, liquidity dries up. Liquidity is necessary to keep on executing day-to-day business. When a corporation is highly dependent on external financing and the availability is compromised due to unfavourable market circumstances, it is expected to influence day-to-day business and subsequently corporate strategy: "During recession, banks become stingy with their business loans. The unintended consequence is that financially strained businesses are deprived of attractive loan opportunities precisely when they are most needed, resulting in further business decline and failures" (Pearce and Michael 2006).

Some corporations are more dependent on a continuous (external) cash flow than others. The dependence on external financing is determined by (1) the annual cash flow – a negative cash flow requires a corporation to find other ways of funding – and (2) the type of funding. The dependence on external financing expresses the influence of funding partners (stakeholders) on the corporate strategic course and thereby the flexibility of the corporation to respond to changes in the context. All case studies subjects in this research are listed.

The bigger the dependence on external financing, the stronger the impact of the credit crunch on the business is expected to be.

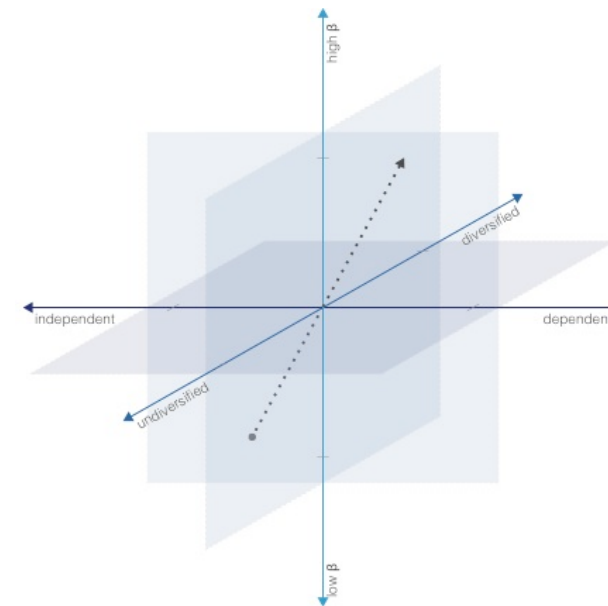


Figure 11: Impact model: impact financial crisis on corporate performance

* The arrow marks a business that has a high beta coefficient, is geographically undiversified and dependent on external financing: it is hit the hardest by the credit crunch.

5 BUSINESS MANAGEMENT

In determining the definition of strategy, authors generally use the terms 'method/plan', 'efficiency' and 'desired future'. There are (of course) different views on what strategy is and how a (corporate) strategy should be formulated. Most business strategies of the last twenty years are based on the Positioning School – a reaction to the Design and Planning School – which considers strategies as analytical and generic rather than creative and unique (Kreijkes 2009). While the Design and Planning School didn't put any limits on the strategies that were possible in any given situation, the Positioning School, in contrast, argues that only a few key strategies are desirable in any given industry: ones that can be defended against existing and future competitors.

Two leading authors in the field of strategic management, Porter and Mintzberg, diverge on their view on strategy. While Porter sees strategy as an analytical process, Mintzberg views it as a visionary or learning process. According to Porter, strategy is based on three questions: "How are we going to be unique, how are we going to have an advantage and how are we going to sustain that advantage over time?" It means deliberately choosing a different set of activities to deliver a unique mix of value. Porter believes that strategic positions come from three sources and often overlap. The first source is variety-based positioning: based on the variety of goods or services offered by the firm; the second type is called needs-based positioning: an attempt to meet all or most of one group's needs; the third, access-based positioning, focuses on the means by which customers are served. This can be geographical or any method by which a firm accesses customers (Walker 2011).

Critics say that Porter's Positioning School is not up to date anymore. Markets have become dynamic and knowledge intensive. One is automatically required to anticipate and react to

changing consumer demand (Olthoff-van Paassen 2006). Mintzberg's criticism on the Positioning School is primarily focused on the narrowness of the scope that is being used. This narrowness focuses on the concepts range, context, process, and strategy.

How can corporate strategy be classified?

5.1 PORTER'S GENERIC STRATEGIES

Use is made of Porter's generic strategies in order to classify the corporate strategy over time and be able to appoint differences. Michael Porter introduced a new approach towards strategic management in the 1980s with his book Competitive Strategy. The approach – founding theory of the Positioning School – differentiated from the prevailing perspectives of the so-called Design and Planning School, for it replaced the concept 'unique' by the concept 'generic'. Porter shifted the focus of attention from the process of formulation to the actual content of strategies. The Positioning School offers more insight in practicing strategic management due to the clear arrangement in a limited number of options and the analytical approach to come to a choice for a specific generic position.

According to Porter, the fundamental basis of above-average performance in the long run is sustainable competitive advantage. Competitive advantage is at the heart of any strategy; achieving competitive advantage requires a firm to make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Though a firm can have a myriad of strengths and weaknesses vis-à-vis its competitors, there are two basic types of competitive advantage a firm can possess: (1) low cost or (2) differentiation. The significance of any strength or weakness a firm possesses is ultimately a function of its impact on relative cost or differentiation. Cost advantage and differentiation in turn stem from industry structure. They result from a firm's ability to cope with the five forces better than its rivals.

The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: (1) cost leadership, (2) differentiation, and (3) focus.

The focus strategy has two variants, cost focus and differentiation focus. The relationship between the various types of competitive advantage is depicted in figure 3.6.

- (1) Cost leadership: a firm sets out to become the low-cost producer in its industry. Firms following this strategy place emphasis on cost reduction in every activity in the value chain: "Cost leadership requires a firm to actively achieve economies of scale, pressing overhead costs and minimizing costs in the field of research, service and delivery" (Porter 1985). The firm has a broad scope and serves many industry segments, and may even operate in related industries.

The risk of following the cost leadership strategy is that the company's focus on reducing costs, even sometimes at the expense of other vital factors, may become so dominant that the company loses vision of why it embarked on one such strategy in the first place (Lynch 2003).

- (2) Differentiation: a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price: extra costs that the company would have to incur like advertising spending to promote a differentiated brand image for the product.

Some problematic areas of the differentiation strategy include the difficulty to estimate if the extra costs entailed in differentiation can actually be recovered from the customer through premium pricing. Moreover, successful differentiation strategy of a firm may attract competitors to enter the company's market segment and copy the differentiated product (Lynch 2003).

- (3) Market segmentation: The focus strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment of group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for

the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall.

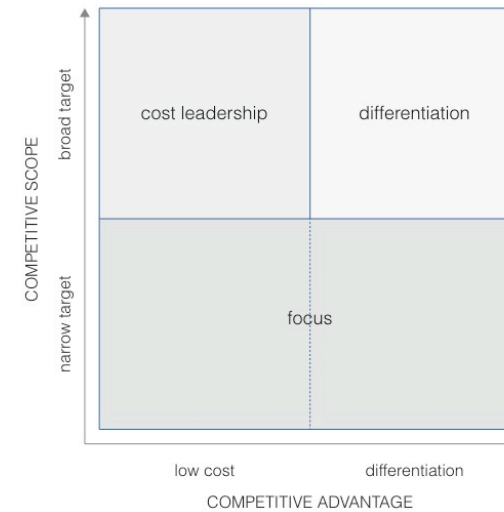


Figure 12: Generic Strategies by Porter (1985)

5.2 TREGOE AND ZIMMERMAN: DRIVING FORCES

Driving forces are the articulation or lived out mission statement of the organization (Coghlan and Rashford 2006). Driving forces originate from the theory of Tregoe and Zimmerman (1980). We make use of the theory of Tregoe and Zimmerman for several authors have proved the alignment between driving forces, corporate strategy and generic real estate strategies. Driving forces are among others used in the theory of Nourse and Roulac (1993) and Scheffer, Singer and van Meerwijk (2006).

Nourse and Roulac (1993) explain: "Driving forces determine the future product and market scope that define a business and provide a framework for guiding operating decisions" (Nourse and Roulac 1993). An organization's driving force is identified and selected through an examination of the organization's traditional strengths and functions. Tregoe and Zimmerman (1980) have defined nine basic strategic areas or driving forces. They are grouped into three categories: (1) products/markets, (2) capabilities and (3) results. In general, the products and markets category is most often associated with flexible organizations that are customer- and market-oriented and respond quickly to the needs of the customers. Capability-centred companies are most often inward focused with advantages of skills, products, methods or resources that give them advantage. Results-associated companies are often conglomerates or large complex organizations with many divisions or sub-units (Coghlan and Rashford 2006).

Tregoe and Zimmerman state usually only one of the driving forces is the primary determinant of what the business does. They hold this to be the case because it is the precondition or assumption that underlies the forming of the corporate strategy and implementing the corporate plan. Nourse and Roulac use multiple: "The driving force of a company may change over time with changes in the environment, markets and other forces that determine business direction and competitive position" (Nourse and Roulac 1993). In this research, multiple driving forces are used: their importance, i.e. which one is leading, is indicated with a number one, two, three or four classification.

Category	Driving Forces	Explanation
Products/ markets	(1) Products Offered	Defines business by its products and products similar to existing ones.
	(2) Market Needs	Defines the business by attempting to serve particular needs of particular segment of the market.
Capabilities	(3) Technology	Defines business by attempting to provide products, services, and markets derived from its technological expertise.
	(4) Production Capability	Defines business by attempting to provide products and services that can be produced using its production capabilities.
	(5) Method of Sale	Defines business by attempting to provide products and services that can be sold by the company's way of convincing customers to buy.
	(6) Method of Distribution	Defines business by attempting to provide products and services that can be sold by its distribution system.
	(7) Natural Resources	Defines business by attempting to provide products and services that are generated from its control and use of particular resources.
Results	(8) Size/Growth	Defines business by attempting to provide products and services that meet new size or growth objectives.
	(9) Return/Profit	Defines business by attempting to provide products and services that will meet its targeted return or profit measures.

Table 10: Driving Forces, Tregoe and Zimmerman (1980)

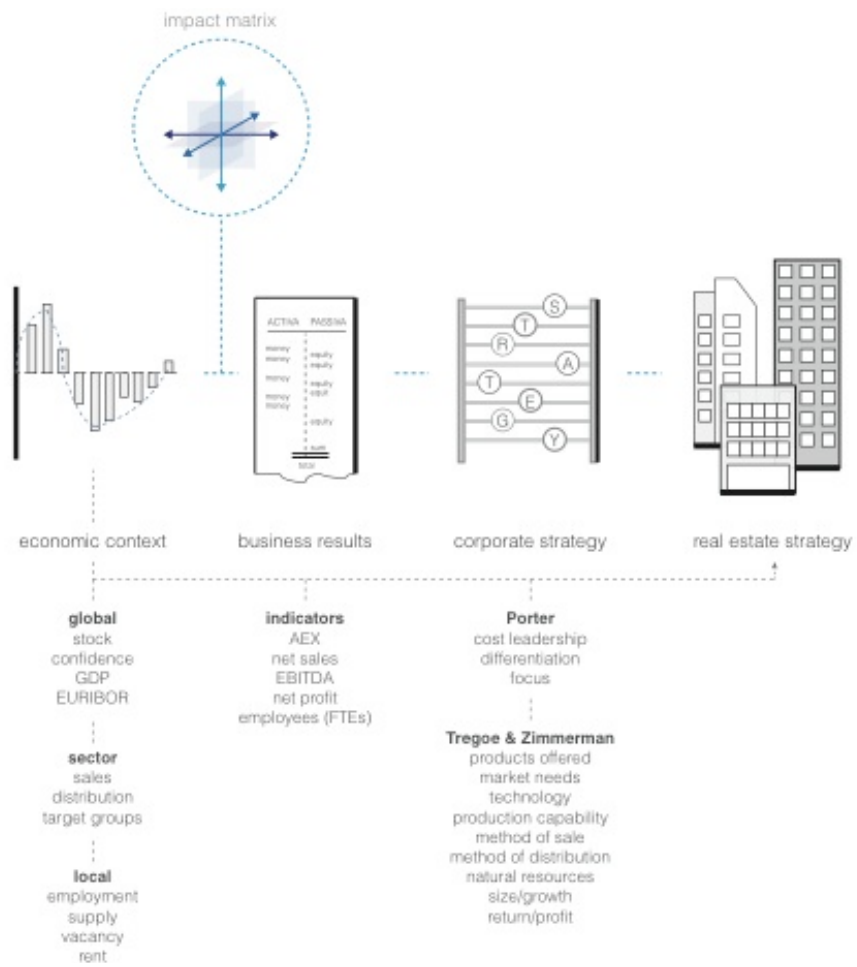


Figure 13: Conceptual model: corporate strategy

6 REAL ESTATE CLASSIFICATION

The research focuses on showing that the economic context influences the real estate strategy of a multinational corporation, because there is a connection on organizational and real estate level, and subsequently demonstrating the results of this relationship. Thereby the research proposal builds on the assumption that: (1) there is a demonstrable relationship between the corporate (business) strategy, including associated business objectives, and the corporation's real estate strategy; and (2) the economic context and specific market conditions are connected to the real estate strategy, directly or indirectly through the development of the corporate strategy. The connection or relationship between corporate and real estate activities can be described as alignment and may lead to the creation of added value (see Paragraph 7.3).

6.1 DEFINITION OF ALIGNMENT

According to Heywood (2008), alignment is the bringing into harmony things that differ or could differ by making them consistent or in agreement with each other (Heywood and Kenley 2008, Heywood 2011). Then and Tan (2010) provide a more comprehensive understanding of the alignment phenomenon: moving in the same direction, supporting a common purpose, being synchronized in timing and direction and being appropriate for the purpose (Then and Tan 2010). Then and Tan thereby not only emphasize on the common purpose, but refer to the variable time as well. Synchronized timing ensures that real estate strategy is both designed and implemented in accordance with the corporate course.

This research builds on the assumption that alignment is not unilateral. There is a difference between alignment and successful or optimal alignment. Alignment is demonstrated when

one variable, say the corporate strategy, moves in a specific direction and the other variable, the real estate strategy, reacts by moving in the same, or another, direction. In this state, the development of the corporate and real estate strategy are linked. Successful or optimal alignment is the movement of two variables in the same direction in a response to one another, together strengthening the overall goals and objectives of the organization.

6.2 ALIGNMENT THEORIES

Numerous authors have tried to prove and/or explain the alignment phenomenon, including Roulac (2001), Lindholm et al. (2006), McDonagh (2009), Heywood et al. (2009) and Then and Tan (2010). The theories show great differences. Heywood (2011) argues that the degree of variability and completeness between the alignment models can be devoted to the emergent nature of the discipline (Heywood 2011).

Nourse and Roulac (1993) presented one of the first alignment theories: "An organization's real estate decisions will be effective if such decisions support the enterprise's overall business objectives. This result can be achieved only by the explicit consideration of how real estate strategy supports corporate strategy and the sub strategies for component elements of the corporation, and then in turn how specific real estate operating decisions support the real estate strategy" (Nourse and Roulac 1993). Creating sustainable competitive advantage is the challenge. Lindholm et al. (2006) underpin: "The strategic management of the real estate portfolio must be derived from and support the overarching corporate strategy in order to ensure an effective contribution to the corporation as a whole" (Lindholm, Gibler et al. 2006). According to McDonagh and Nichols (2009), this is only possible with a structured, implementable real estate strategy, which is able to adjust to market and economic circumstances (McDonagh and Nichols 2009). Heywood and Kenley consider real estate an added value to the organization: "Corporate real estate and its related strategies are among the elements that must be aligned with the organisation's goals and objectives to ensure that the resources are being used efficiently to support sustainable competitive advantage and, thereby, the firm's performance" (Heywood and Kenley 2008). Gibler and Lindholm (2011) regard corporate real estate part of creating competitive advantage, just like other business disciplines: "Firms may exploit their corporate real estate resources to contribute to creating and sustaining competitive advantage, just as they

manage their human and financial resources in support of these pursuits" (Gibler and Lindholm 2011). Krumm and de Vries (2003), argue real estate decisions have direct financial impacts on corporate performance as well as indirect influences through accommodating core business activities (Krumm and Vries 2003). All theories underpin the importance of real estate strategy being aligned with the corporate strategy in order to support the organizational objectives.

Which factors influence the degree of alignment between the corporate strategy and the real estate strategy?

The alignment between corporate and real estate strategy within a corporation is dependent on numerous factors, many of which are related to each other. To begin with, it is the organization itself that has to be aware of and open to the possible added value of alignment for the business. The maturity of the organization plays a role; size of the firm is of importance as well. Gibler and Lindholm (2011) make a difference between small and large firms: "Larger firms tend to have more choices because of their superior resources, economies of scale, economies of scope and learning effects. Smaller firms may be more vulnerable in terms of resources and narrower markets, but they also tend to be closer to their customers and more attuned to environmental changes with the flexibility to react quickly" (Gibler and Lindholm 2011). Shama (1993) and Latham (2009) confirm larger firms tend to favour cost reduction strategies during recession, whilst smaller firms focus on market segmentation tactics. For this research solely concerns multinational corporations with big staffing and major real estate portfolios, size is not relevant here.

The purpose of real estate is. Multiple authors have argued the choice for a specific real estate strategy to be dependent on the firm size and industry: the sector in which the multinational is active – in specific the business operations it carries out – determines the role and importance of real estate to the business. Krumm (1999) argues corporate real estate plays an important role in the core business activities of service corporations – such as ABN AMRO and ING – due to the focus on interaction between corporations and clients, which is represented in the place of CREM in the organisational structure (Krumm 1999). A comparable conclusion is made by Roulac et al. (2005), following from a survey under

corporate real estate managers in the UK: "The analysis highlights that companies in the industrial sector lag significantly behind those companies in other economic sectors in terms of using real estate as a corporate asset (...)" (Roulac, Adair et al. 2005). Nourse and Roulac (1993) recommend answering the following questions, before designing a real estate strategy: What business are we in? Consequently, what is the role of real estate in this business? They illustrate: "Is real estate central to distribution of the company's products, such as in a retail food business, or is it ancillary, such as in a business that sells its goods and products through indirect channels and does not directly relate to the customers?" (Nourse and Roulac 1993).

The alignment between corporate and real estate strategy within a mature, multinational corporation is determined by two portfolio characteristics that together form the 'real estate classification' quadrant: (1) purpose of real estate and (2) type of real estate.

6.3 CLASSIFICATION MODEL

Authors agree upon the observation that for a corporation, the purpose of real estate – represented in the corporation's portfolio – is related to the degree of alignment between corporate and real estate strategy. The purpose of real estate follows from the nature of the industry or sector in which the multinational is active. Real estate can serve (1) customer and/or (2) production purposes. The former is used to get in contact with the proposed client; the latter is used to facilitate the main production process. The type of real estate can be (1) generic or (2) specific, which expresses whether or not the real estate objects are market-conform. Generic or market-conform real estate is more flexible in terms of applicability (use) and transference (disposal) than specific real estate.

Following from the statements of Krumm (1999) and Roulac et al. (2005), a corporation that is service-oriented manages its real estate portfolio that accommodates customer-contact very actively. A corporation that is production-oriented, values the management of its production facilities the most. However, production facilities are often inflexible. Therefore, during recession, the real estate department has the most influence on the generic, or market-conform real estate portfolio.

If the real estate portfolio of a corporation primarily serves customer-contact, the alignment between corporate and real estate strategy is assumed to be stronger.

Depending on the combination of purpose and type, there can be different actors that have influence on the characteristics – such as location, image, size, interior and price – of the real estate object. For real estate serving the main production process, production factors are determinative in real estate decision-making; for real estate serving customer-contact, business factors are determinative in real estate decision-making. For example, the location and image of a shop are strongly influenced by the commercial strategy of the retail business unit; the size and layout of a factory or production plant are influenced by the logistics plan of the engineering unit; and the interior and furniture of an office are influenced by human resource management. The influence of those business units depends on the organizational structure and hierarchy of the corporation.

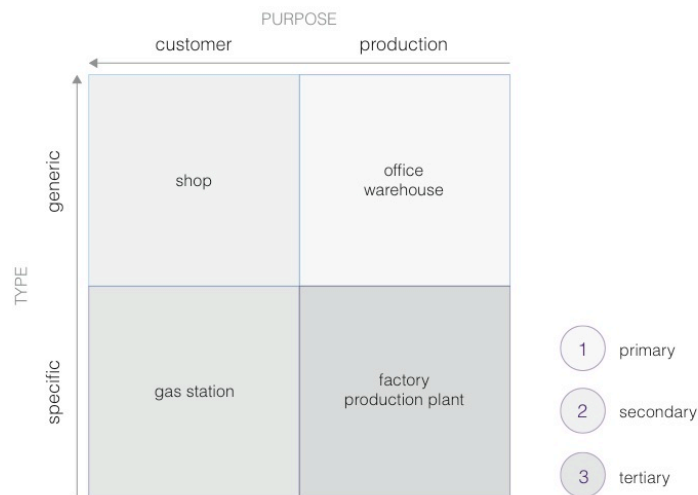


Figure 14: Real estate classification

All planes in the quadrant represent a real estate class: see Figure 14. A corporation's portfolio can exist of a combination of real estate classes. The primary object class within the portfolio determines the main purpose of the real estate portfolio. The purpose of all classes is indicated with a number one, two or three classification.

6.3.1 CUSTOMER – GENERIC

Market-conform real estate that serves client-contact is for instance a retail shop. The object is flexible and easy to standardize, such that it can be adapted to changing (market) circumstances. The shops can accommodate all types of activities; they are easily transferable. The characteristics of the object are influenced by consumer behaviour.

6.3.2 CUSTOMER – SPECIFIC

Specific real estate that serves client-contact is for instance an ATM, a gas filling station or a drive-through. The object represents the corporate image; it is influenced by consumer behaviour and consumer trends. However, the object is strongly adapted to the activity that it serves. It is not easily transferable. This means that customer-specific real estate requires active real estate management.

6.3.3 PRODUCTION – GENERIC

Market-conform real estate that serves production purposes is for instance an office. The object determines or supports the production process. The object can serve multiple activities and organizations, such that it is easily transferable. Depending on the underlying specifications – an office can be a knowledge centre or 'only' a back-office – it may or may not be qualitatively decorated.

6.3.4 PRODUCTION – SPECIFIC

Specific real estate that serves production purposes is for instance a production plant or factory. The object is attuned to the characteristics of the production process that it accommodates: it is not (easily) transferable. Specific real estate is often held for the long-term, for it requires major process specific investments.

7

REAL ESTATE MANAGEMENT

Corporate Real Estate Management (CREM) is concerned with the optimal performance of an organization's real estate, preferably to contribute to the organization's overall performance: "CREM is usually defined as the management of the real estate portfolio of a corporation or public authority by aligning the portfolio and services to the needs of the core business, in order to 'obtain maximum added value' for the business and to contribute optimally to the overall performance of the organisation" (Jensen, van der Voordt et al. 2012). The management of corporate real estate involves many disciplines, ranging from portfolio management, financial analysis and location research, to ICT-related issues.

The definition of real estate strategy, provided by Edwards and Ellison (2004), is formulated from a business perspective: "The appliance of management strategies to the property portfolio of an organization, to achieve its operational objectives efficiently" (Edwards and Ellison 2004). Gibler (2011) focuses on the process and content: "Corporate real estate strategy consist of a pattern of decisions related to acquiring and managing property and related services to support the overall corporate competitive strategy" (Gibler and Lindholm 2011). Nourse and Roulac (1993) have a similar understanding: "Real estate strategies are required in order to effectively support a range of corporate objectives, multiple, rather than single" (Nourse and Roulac 1993). While both Gibler and Nourse & Roulac believe that a real estate strategy is to support the overall corporate competitive position, Edwards and Ellison only refer to achieving operational objectives efficiently. Furthermore, Gibler explains the process to consist of several consecutive steps – 'pattern of decisions' – and thereby distinguishes the real estate strategic activities acquiring and managing: "To achieve competitive advantage, firms often follow a strategic management process, a pattern of

decisions that originates with the firm determining its goals and objectives, then developing policies and plans for achieving those goals" (Gibler and Lindholm 2011).

There are no uniform successful real estate strategies. This is among others dependent on organization type, culture, objectives, branch and overall performance. It is essential to an organization to explicitly articulate and communicate the strategy. This not only creates the opportunity to align the strategy with the corporate business strategy, but also makes it possible to test, review and, if necessary, adjust the strategy. According to Gibler (2011), this should increase the value that corporate real estate management adds to the firm and may improve the visibility of corporate real estate as a strategic resource (Gibler and Lindholm 2011).

Real estate strategy formation is a complex interplay of a variety of variables, which all need to be taking into account to create added value for all stakeholders. But added value is a widely used term. Scheffer, Singer and van Meerwijk (2006) for instance argue added value is the contribution of real estate to the realization of corporate business objectives; de Vries (2007) formulates: "The added value of corporate real estate management was defined as the contribution of real estate interventions to productivity, profitability and competitive advantage." In 2012, a research group from different nationalities and specialisms concluded that the meaning of added value of real estate, from the perspective of CREM specialists, is described as the ability of the real estate decisions, processes and inputs to create shareholder wealth (Jensen, van der Voordt et al. 2012). Furthermore, they notice that improving productivity and decreasing costs are the most discussed areas of adding value by corporate real estate management. When expressing added value, it is important to indicate which stakeholders are involved and who benefits from the added value. In this research, the concept of added value is described as: one or multiple real estate implementations that contribute to the accomplishment (achievement) of corporate objectives.

Making use of the theory of Joroff, the position and role of real estate within the organizations can be determined. Subsequently, the theory of O'Mara is used to reflect upon the case studies in order to classify the real estate strategy perspective over time and be able to

appoint differences. Finally, a set of real estate strategies is selected, based on multiple theories, to be able to differentiate the specific real estate strategies that are used over time.

How can the corporate attitude towards real estate be classified?

7.1 REAL ESTATE ORGANIZATION: JOROFF

The development of the Real Estate Management discipline is one of decades. The first real estate departments were initiated in the beginning of the twentieth century. The fully equipped departments were founded to standardise building design and create and maintain a corporate image for industrial corporations (Krumm 1999). Over time, firms started to expand. First nationally, in a later stage globally. In the 1980s, business got serious. Major events like mergers, crises and internal reorganizations required changing the corporate strategic thinking, changing demand for accommodation. It encouraged corporations to take a good look at their own real estate portfolio: "Globalization of business operations and other competitive pressures are forcing corporations to re-evaluate their real estate needs" (Lindholm, Gibler et al. 2006). After the economic recession in the 1990s, it became clear that real estate was the second largest costs on the balance (Krumm 1999). Since then, real estate has become a professional discipline, kept in-house or outsourced to independent real estate service providers. Major developments in the information and communication technology have changed the need for accommodation drastically.

The role of corporate real estate in the business process is associated with the place of real estate in the organisational structure. The position and role of CREM has evolved over time. What once started as a centralized business unit, with mainly technical operational activities, has generally become a strategic (financial) department. Operations are decentralized due to an increasing geographical and product diversity. The role has gradually shifted from construction to accommodation services. Corporate headquarters are in charge of the financial aspects of the real estate portfolio (asset management), whilst object specific activities (facility management) are often outsourced to external service providers.

Use is made of the model of Joroff (1993) to classify organizations by the way they deal with real estate. Joroff argues that corporate real estate should be considered as fifth resource in order to achieve the organizations objectives. As a consequence, the real estate strategy should be situated 'between' the organization and the organizations objectives. Joroff (1993) distinguishes five evolutionary stages. The model describes the development of a reactive - purely operational - role to a pro-active strategic role (Trigt 2005). The activities of the organization differ in every stage. The first stage (taskmasters) is purely technical: acquiring and managing the portfolio. In the second stage (controllers) the department has one primary task: providing information for cost controlling, and preferably, cost reduction. Dealmakers focus on acquiring value for the organisation by standardising the portfolio and enabling flexibility. In the entrepreneurial phase, the real estate department functions as a fully equipped internal real estate advisor. Intrapreneurs make the link between corporate and real estate strategy. In the fifth and last stage, business strategists anticipate on the corporate and the external environment (Trigt 2005).

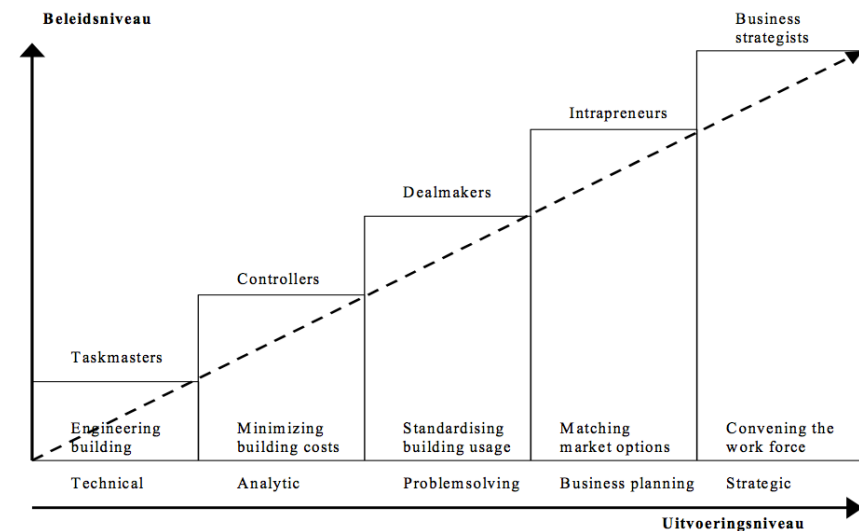


Figure 15: Corporate real estate competency shifts (Joroff 1993)

How can real estate strategy be classified?

7.2 O'MARA'S PERSPECTIVES

In their theses, both Kreijkes and Singer concluded that the generic strategies, designed by O'Mara, are applicable to the real estate strategy of multinational corporations: "O'Mara's Real Estate Strategies are analytical and general strategies, which could be implemented easily into every organization. This means that Real Estate Strategies of every organization could be classified into the differentiation that O'Mara presents" (Kreijkes 2009). For they too have classified the strategies of several of the case studies of this research, we will use the theory once again to indicate possible changes in strategy caused by the financial crisis.

7.2.1 O'MARA'S PERSPECTIVES

O'Mara's theory – described in the book 'Strategy and Place: Managing Corporate Real Estate and Facilities for Competitive Advantage' – employs the basic concepts of the Positioning School in order to help corporations gain more insight into the strategic management of their corporate real estate portfolio (Kreijkes 2009). Porter used two concepts to create the discrepancy between the different generic strategies, being: (1) type of competitive advantage and (2) the scope of activities; O'Mara did too, to explain the discrepancy between the different generic corporate real estate strategies: (1) strategic uncertainty and (2) views on action in organizations.

7.2.1.1 Strategic uncertainty

As O'Mara explains, strategic uncertainty drives corporate real estate decision-making: factors that influence uncertainty will trigger a shift in how real estate and facility decisions are made (de Jonge et al. 2008). The more uncertain managers are about their company's future, the more they want to delay major commitments until either better information or a clearer vision is available. Long-term commitments to facilities or capital improvements are avoided as much as possible.

7.2.1.2 Two views on action in organizations

There are essentially two opposing, but not necessarily exclusive, ways of viewing what drives action in organizations. Some theories claim that organizational behaviour is primarily driven by an:

- (1) Rational-instrumental perspective: the rational-instrumental perspective implies that decisions about facilities are made in an economically rational way, taking into account available external resources, the technological requirements of production, and embedded resource allocation systems. Economically rational means that the highest value output is sought at the lowest investment cost.
- (2) Valuation-symbolic perspective: according to the valuation-symbolic perspective, the basis for real estate decisions is how well they reflect the management style, the hierarchy, and the status and power of the organization's members. Behaviour in organizations is based upon social and emotional criteria. The facility serves as a symbol of the organization's culture.

7.2.2 GENERIC STRATEGIES

Based on the fundamental influence of both strategic uncertainty and the different views on action in organizations, a classification of generic strategies is generated. Corporations operating from a rational-instrumental perspective will – depending on the strategic uncertainty – approach their real estate decision making in either an incremental (at high uncertainty) or standardized (at low uncertainty) manner. Corporations operating from a valuation-symbolic perspective base their real estate decision making on the extent to which the values of the corporations are reflected.

7.2.2.1 Incremental strategy

An incremental strategy is apparent when space is acquired in bits and pieces over time. The more uncertain managers are about their company's future, the more they want to delay major commitments until either better information or a clearer vision is available. Under these conditions, the primary concern of the company is to meet the physical requirements of the work to be done – that which is immediately identifiable and tangible. Companies that pursue an incremental strategy may have some design or space standards, but the acquisition and planning of each new project is undertaken one at a time, with little future planning and not much concern for following standard procedures.

There are three major reasons why companies pursue incremental real estate and facility strategies. Uncertain competitive conditions are the drivers of two reasons: (a) an inability to forecast space requirements based on uncertain product demand in the future and (b) a lack of management time to plan and make decisions during periods of high growth and rapid change. A third set of reasons for making decisions incrementally are based upon (c) financial considerations: a desire to conserve capital for future commitments or to take advantage of late-breaking opportunities in the real estate market.

7.2.2.2 Standardization strategy

A standardization strategy attempts to control and coordinate facility design and real estate operations across the entire organization. Standards are set centrally and applied throughout the company. In order to standardize real estate and facilities decision-making, a company must be able to make some confident predictions about its future facility requirements. An extensive use of a standardization strategy often is found at companies which occupy a great deal of real estate, have fairly predictable use of these assets based upon function and place a priority on control and efficiency. In general, the older and larger a company is, the more likely both design and operating standards will be found. Standardization is all about control: cost control and control over behaviour.

A standardization approach to real estate and facility decisions is most appropriate for companies operating in relatively stable competitive environments. Stable markets often pressure these companies to compete as low-cost producers, so the cost controlling aspects of standardization's scale economies can help sustain cost advantages. Standards are easier to implement since much of the company's product development and production can be routinized.

7.2.2.3 Value-based strategy

A value-based strategy deliberately expresses the values and strategic direction of the company in the real estate decision-making process. When a value-based strategy is followed, people not only speak of the building's function but also highlight its meaning to the organization. A value-based approach recognizes that people construct social meaning out of their physical environment. A value-based strategy actively celebrates this innate human behaviour. A value-based strategy embraces what Place means to the organization

and uses Place to support its goals. The value-based approach is proactive about using the inherent power of the physical setting to symbolize values and influence behaviour. It embraces and utilizes the setting's communicative powers to the organization's advantage.

One can detect a value-based approach in action when organization members speak about what their work environment means to the organization in non-economic terms. The value-based approach considers the company's relationship with its customers, employees and the community.

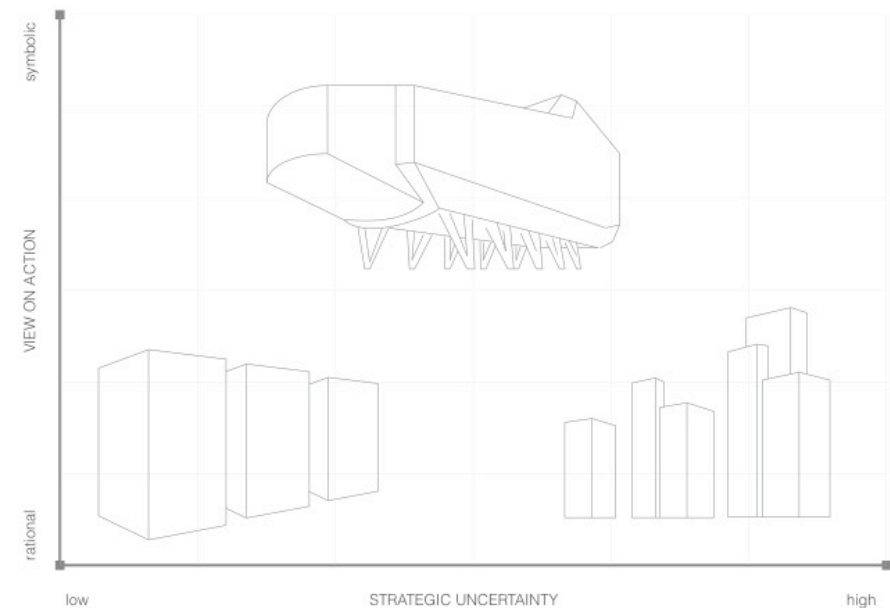


Figure 16: Generic real estate strategies by O'Mara

7.3 REAL ESTATE STRATEGIES

There are different authors that bring corporate and real estate strategy together in their theory. Nourse and Roulac connect corporate strategy with real estate strategy and real estate operating decisions. This is done through relating nine driving forces (originating from Tregoe and Zimmerman) to eight alternative real estate strategies. Gibler and Lindholm (2011) use and modify the theory of Lindholm et al. (2006) in their research to test the application of corporate real estate strategies (and operating decisions) in support of core business strategies during recession. They use the shareholder value theory as a basis: "A firm should strive to maximize the return to shareholders, as measured by the sum of capital gains and dividends, for a given level of risk or reduce the risk with the same level of income" (Lindholm, Gibler et al. 2006). The firm can choose between two basic business strategies for increasing the value of the firm and its shareholders: (1) revenue growth or (2) profitability, and align these with the corporate real estate strategies. "We retain the hypothesised alignment of the original seven corporate real estate strategies with the two core business strategies leading to wealth maximisation of the firm, including the possibility that enhancing employee wellbeing and satisfaction may support both core business strategies." An eighth potential real estate strategy is added: supporting environmental sustainability. According to their research, all participants – corporate real estate managers from different corporations and continents – unanimously confirmed that the eight selected real estate strategies cover the load.

Scheffer, Singer and van Meerwijk (2006) developed their theory on the basis of the added values of de Jonge (1996). Just like Nourse and Roulac, Scheffer, Singer and van Meerwijk make a differentiation between (1) the corporate strategy (driving forces), (2) real estate management (alternative real estate strategies or added values) and (3) implementing real estate management (decisions or measurable items). According to Nourse and Roulac, the alternative real estate strategies are determined by the corporate strategy (considerations), the culture and values of the corporation: an organization based approach (Bergh 2011). Scheffer, Singer and van Meerwijk substitute the perspective of alternative real estate strategies for the basic assumption that real estate should be considered as a resource that can contribute to the realization of corporate business objectives through a series of added values (Scheffer, Singer et al. 2006). In an effort to pinpoint added value of real estate, de

Jonge describes seven elements of added value contributing to the transformation of real estate from mere cost of doing business to a true corporate asset (Scheffer, Singer et al. 2006). This is a real estate perspective. The added values are made operational through 25 measurable items. De Jonge also identifies cost reduction, flexibility, and the relationship between real estate and marketing as ways real estate can add value to the firm (Lindholm, Gibler et al. 2006).

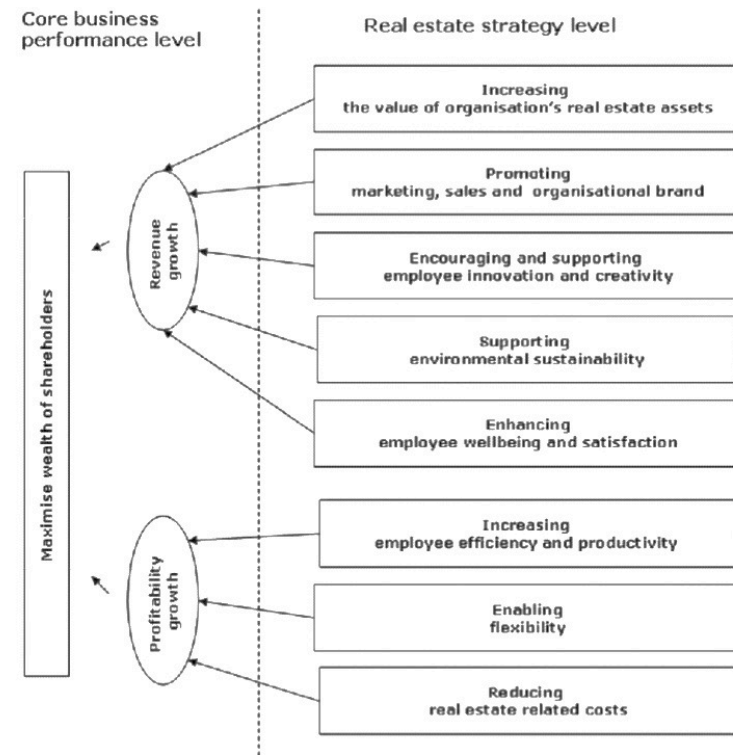


Figure 17: Modified model Lindholm et al. 2006 (Gibler and Lindholm 2011)

The real estate strategies of the theories show great overlap. De Jonge's (1996) strategies differ from that of Nourse and Roulac (1993) by reformulating facilitating operations to increasing productivity, more clearly identifying increasing value as a strategy, highlighting

changing culture by introducing workplace innovations, and grouping a range of real estate decisions under the heading of risk control. Bergh (2011) explains that Nourse and Roulac and Lindholm et al. do not explicitly include 'risk control/management' in their generic strategies, for they have embedded it in the real estate operating decisions (Bergh 2011). The theory of O'Mara explicitly does consider uncertainty and risks; therefore, risk control is considered as a generic real estate strategy in this research. Research of Gibler and Lindholm (2011) has shown the importance of sustainability in the current real estate management practice: "Supporting environmental sustainability may support growth through improved image and profitability through reduced operating cost" (Gibler and Lindholm 2011). Sustainability is added to the generic real estate strategies in this research. The total of nine generic real estate strategies are shown in Table 11.

In the theoretical framework, the importance of the real estate strategies, i.e. which one is leading, is indicated with a number one, two, three or four classification.

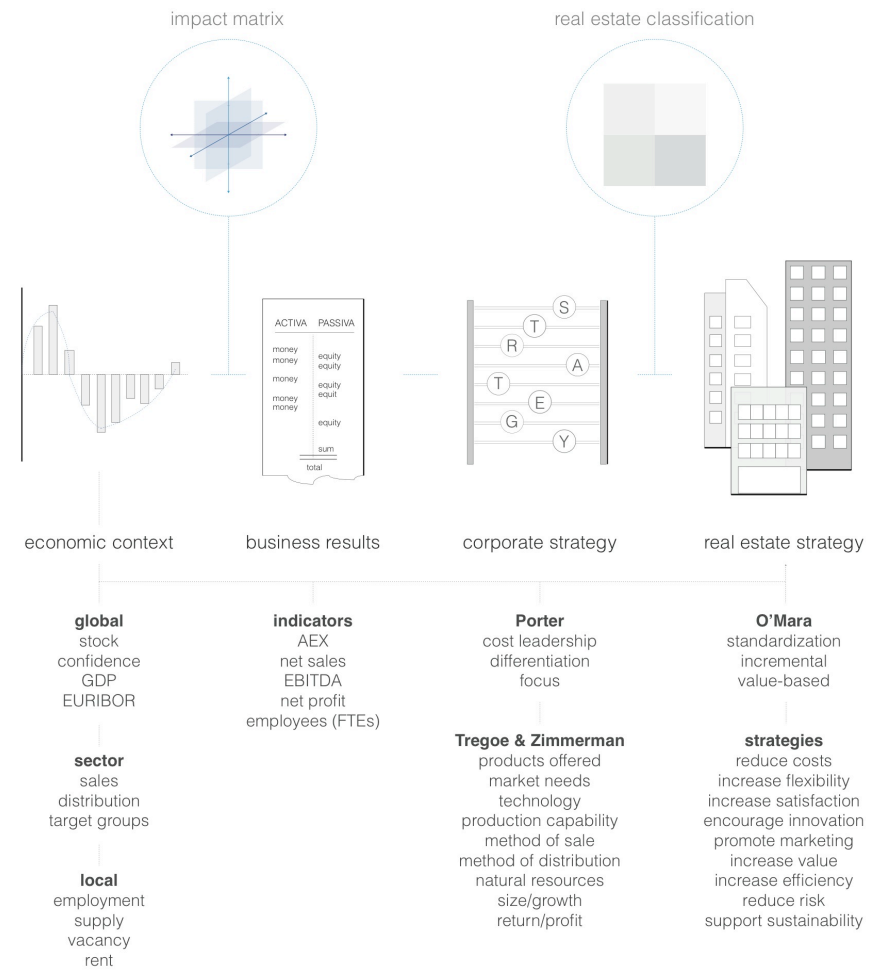


Figure 18: Conceptual model: real estate strategy

#	Alternative Real Estate Strategies by Nourse and Roulac (1993)	Added Values by de Jonge (1996) (In Scheffer, Singer and van Meerwijk 2006)	Value-adding Attributes by Gibler and Lindholm (2011)	Combination Estate Strategies	Real
1	Occupancy cost minimization	Cost reduction	Reducing real estate related costs	Reduce Costs	
2	Flexibility	Increase of flexibility	Enabling flexibility	Increase Flexibility	
3	Promote Human Resource objectives	Changing the culture	Enhancing employee wellbeing and satisfaction	Increase Satisfaction	
4	Facilitate managerial process and knowledge work		Encouraging and supporting employee innovation and creativity	Encourage Innovation/creativity	
5	Promote marketing message Promote sales and selling process	Public relations & marketing	Promoting marketing, sales and organizational brand	Promote Marketing	
6	Capture the real estate value creation of the business	Increase of value	Increasing the value of the organization's assets	Increase Value	
7	Facilitate and control production, operations, service delivery	Increasing productivity	Increasing employee efficiency and productivity	Increase Efficiency/Productivity	
8		Risk control		Reduce Risk	
9			Supporting environmental sustainability	Support Sustainability	

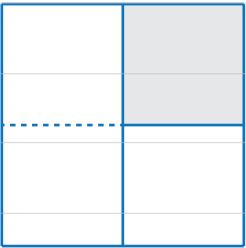
Table 11: Comparison generic real estate strategies

8 THEORETICAL FRAMEWORK

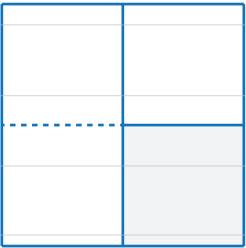
By means of the theoretical framework, the development of the alignment phenomenon during recession can be analysed for all case studies subjects. There are two elements in the equation: (1) the corporate strategy: Porter, Tregoe & Zimmerman and (2) the real estate strategy: O'Mara and alternative real estate strategies. To give insight in the way corporations deal with real estate, use is made of a third element: (3) the attitude towards real estate and the position in the organization: Joroff. The theoretical model considers all elements and connects these. The theories are put together in the theoretical model and depicted on the next page.

CORPORATE STRATEGY

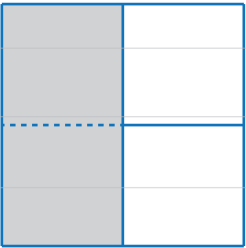
strategy



cost leadership



differentiation



focus

driving forces

Products Offered Market Needs Technology Production Capability Method of Sale

Method of Distribution Natural Resources Size/Growth Return/Profit

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE ORGANIZATION

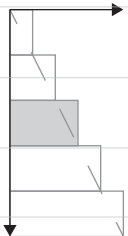
organization



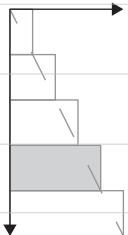
taskmasters



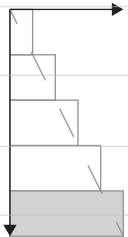
controllers



dealmakers



intrapreneurs

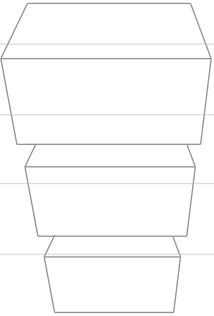


business strategists

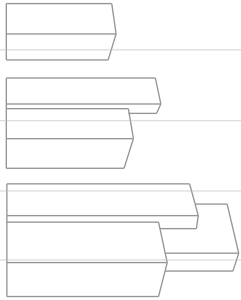
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE STRATEGY

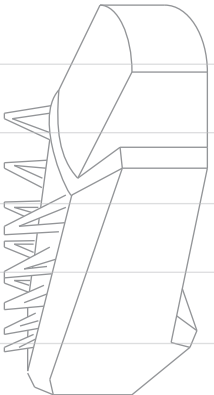
perspective



standardization



incremental



value-based

strategy

Reduce Costs Increase Flexibility Increase Satisfaction Encourage Innovation Promote Marketing

Increase Value Increase Productivity Reduce Risk Support Sustainability

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

C. ECONOMIC CONTEXT

The economic context presents the financial-economic foundation of the research on global, sector and local level.

9 FINANCIAL MARKET (GLOBAL)

Although the case study subjects are rooted in the Netherlands, their activities reach over the entire globe. For the past decades, the United States have been the world's dominant power. The dollar has become the world's leading currency since the 1940s (Jacques 2012). The rise of developing countries and their upcoming economies have changed the perspective. The economic crisis only accelerates this process. Whilst the West – assumed to be the United States, Canada, Western Europe, Australia and New Zealand (Jacques 2012) - is greatly suffering from the economic crisis, several economies (especially Asian) keep on growing. These economies attract more and more corporate activities, including production processes. Most appealing economies are those of the BRIC-countries: Brazil, Russia, India and China (Economywatch 2012).

The macroeconomic environment is important for business and the overall competitiveness: macroeconomic instability harms the economy, as we have seen in the European context (Schwab 2012). The corporate strategic course of the multinationals is likely to have responded, or will be responding, to these changes in the global economy. This will influence the real estate operations as well.

In order to sketch the global market, we picture the most important (social and economic) events between 1993 and 2012 and make use of a selection of financial-economic indicators to project the economic development per continent. After all, the only way to test the impact of the financial crisis is to compare different stages of the economy on different locations. We highlight the rise of the credit crunch, as this is the trigger of the research.

Which main events have dominated the global environment in the past twenty years?

9.1 MAIN EVENTS

With the fall of the Iron Curtain, the early 1990s were a turning point in both society and economy. The end of the Cold War in 1991 left the United States of America as one and only world-power. The Anglo-Saxon model prevailed, also in the Netherlands, and the neoliberal ideas influenced the Dutch government (Velzing 2012). The exceptional unemployment rates during the early eighties – which peaked in 1985 with over 800.000 Dutch people being unemployed – recovered in the 1990s: from 10% unemployment in the 1980s to an average of 4% in the 1990s. The economy stabilized and the political environment calmed. The service industry, ICT and banking institutions flourished (Kreijkes 2009). In 1992, the European member states signed the Maastricht Treaty, which created the European Union, consisting of three pillars: the European Communities, common foreign and security policy and police and judicial cooperation in criminal matters.

The 1990s give way to growth, driven by the founding of the World Wide Web (www) in 1993. To regulate the fast growing industry, the Kyoto Protocol, an environmental agreement meant to combat global warming, is negotiated in Japan. In 1998, Google, a company that would come to dominate the Internet search engine wars thanks to their unique sorting algorithms, is founded in California. Inevitable, the dot-com bubble, a speculative bubble during which stock markets in industrialized nations saw their equity value rise sharply from growth in the more recent Internet sector and related technology fields, burst in 2000. The burst of the bubble marked a period of economic downturn. In addition, the 2001 terrorist attack in the heart of the American (global) financial centre, greatly affected consumer confidence.

In 2002, the European Union puts the Euro in circulation. To participate in the currency, Member States were required to meet strict criteria, such as a budget deficit of less than 3% of GDP, a debt ratio of less than 60% of GDP, low inflation, and interest rates close to the EU average. The introduction of the Euro is one of many pieces in the credit crunch puzzle. So

is the invasion of Iraq, led by the United States alongside the United Kingdom, to disarm Iraq of weapons of mass destruction (WMD), to end Saddam Hussein's support for terrorism, and to free the Iraqi people, in 2003. The credit crunch in 2007 marked the biggest financial crisis since the Great Depression. This global financial meltdown is caused by a number of factors, including the mentality of banks, the greed of consumers and their desire for instant gratification.

The credit crunch and the turmoil in the Middle East make the oil price hit a record high of \$147/barrel in 2008. By that time, the Internet has grown to unprecedented levels, with nearly 1,5 billion unique users. In January 2009, Barack Obama was elected the forty-fourth president of the United States, becoming the first African American to do so, to impulse the economy. Billions upon billions of dollars were spent in an effort to reinvigorate the financial system and free up credit. By 2010, Greece ran up a massive deficit, reaching an estimated 13,6%, and began to collapse under its crushing debts, which had grown 20% larger than the entire economy. This marked the Eurozone crisis.

Whilst the global population reached the 7 billion people in 2011, the global economic crisis showed little sign of ending in 2012. Stock and bond markets remain volatile, while food and energy prices continue to rise. With protests continuing in many countries, various movements for change are emerging.

What is the credit crunch and how did it occur?

9.2 CREDIT CRUNCH

The starting point of the research is the economic crisis, a result from the global credit crunch. The credit crunch has emerged in America in 2007, but was created in the years preceding. It has affected mainly Western countries. The credit crunch blended into an economic crisis in the Eurozone, in the beginning of 2010: the European sovereign debt crisis. The Eurozone crisis is the result of an accumulation of numerous events, including the easy credit conditions in the early 2000s, the global financial crisis, the burst of real estate

bubbles and above all, the violation of the European treaties on government debts by many of the European member states. The Eurozone crisis is mid 2013 still not under control.

The rise of the credit crunch has been build up for years. A series of (in)dependent events, decisions and actions, initiated and caused by different parties and people, lie at the basis of the credit crunch. George W. Bush - former President of the United States of America: 2001 – 2009 – committed the USA to an on-going war in the Middle East to enlarge the competitive position of the US in the world. The war on terror cost the US government approximately 3 trillion US dollars. The war forced money to be constantly produced, faster than the economic growth. Inflation rates did not go up. The Federal Reserve kept interest rates artificially low to be able to finance the on-going war, as the government refused to increase taxes. The US global economic position weakened relative to emerging economies while public money was evaporating quickly. The United States has been living beyond its means ever since, spending more than it saves.

The final push starting the economic crisis can be assigned to the recklessness of American (mortgage) banks. Multiple parties were involved. First and foremost, American mortgage banks have issued mortgages to several risk groups far too easily, for far too long time (Kam 2009). These so-called 'ninja's' – 'no job, no income and no assets' – could live above standard, while their debts where stacking up. In addition, mortgage banks were confident that large financial institutions would cover their insecure loans. Through 'securitization' – a financial construction in which packages of various types of contractual debts are created, including mortgages, and sold to other financial institutions – mortgage banks were able to spread the risks (Butter 2008). The Federal Reserve at the same time kept the interest rates artificially low, making it exceptionally easy to borrow money for individuals, investors and others. As debts were piling up, money was widely circulating and demand for real estate was growing, the housing prices dropped. The *asset bubble* that had been slowly inflating for quite a long time was about to burst. When the Federal Reserve finally intervened and gradually raised the interest rate, people were not able anymore to pay off their (far too expensive) mortgages; mortgage banks had to sell empty properties en masse, putting the housing prices under pressure even more. Entire portfolios were sold below book value; financial institutions had to guarantee the loss (Kam 2009). Meanwhile, the dispersion of 'special purpose vehicles' (securitization packages) raised the uncertainty on the financial

markets; it became unclear who specifically had to bear the losses. Lehman Brothers, one of the oldest American banks, was the first to collapse. On September 14th 2008, this financial breakdown marked the beginning of the biggest financial crisis in 80 years (Hazeu 2011).

The recklessness of the mortgage banks was the straw that broke the camel's back (Butter 2008). Much is to be blamed by the lack of supervision from governmental bodies and authorized institutions. According to many, the Federal Reserve had to intervene way earlier. But it is the self-interest and avarice of the financial sector that accelerated the financial downturn (Zwan 2009). Five years after the credit crunch, the world is facing a global recession.

Europe is still facing years of budget cuts due to the Eurocrisis: the result of overconfidence of especially a small number of member states. Their over-spending has come to light with the credit crunch, forcing them to retrench in times of economic uncertainty. The vicious circle still has to be broken.

The recent economic crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities (Schwab 2012). It has led to uncertainty not only on the financial and economic sector, but consequently on consumer markets. The consumer trust is still decreasing. One sector has to suffer greater losses than others. The real estate market has come to a standstill, as businesses are declining and financial means are unavailable. The market enters a downward spiral: "During recession, banks become stingy with their business loans. The unintended consequence is that financially strained businesses are deprived of attractive loan opportunities precisely when they are most needed, resulting in further business decline and failures" (Pearce and Michael 2006). The

Dutch government has already provided 44 billion euros to several Dutch banks from 2008 until now to keep them from collapsing (Hazeu 2011).



Figure 19: Historic overview credit crunch

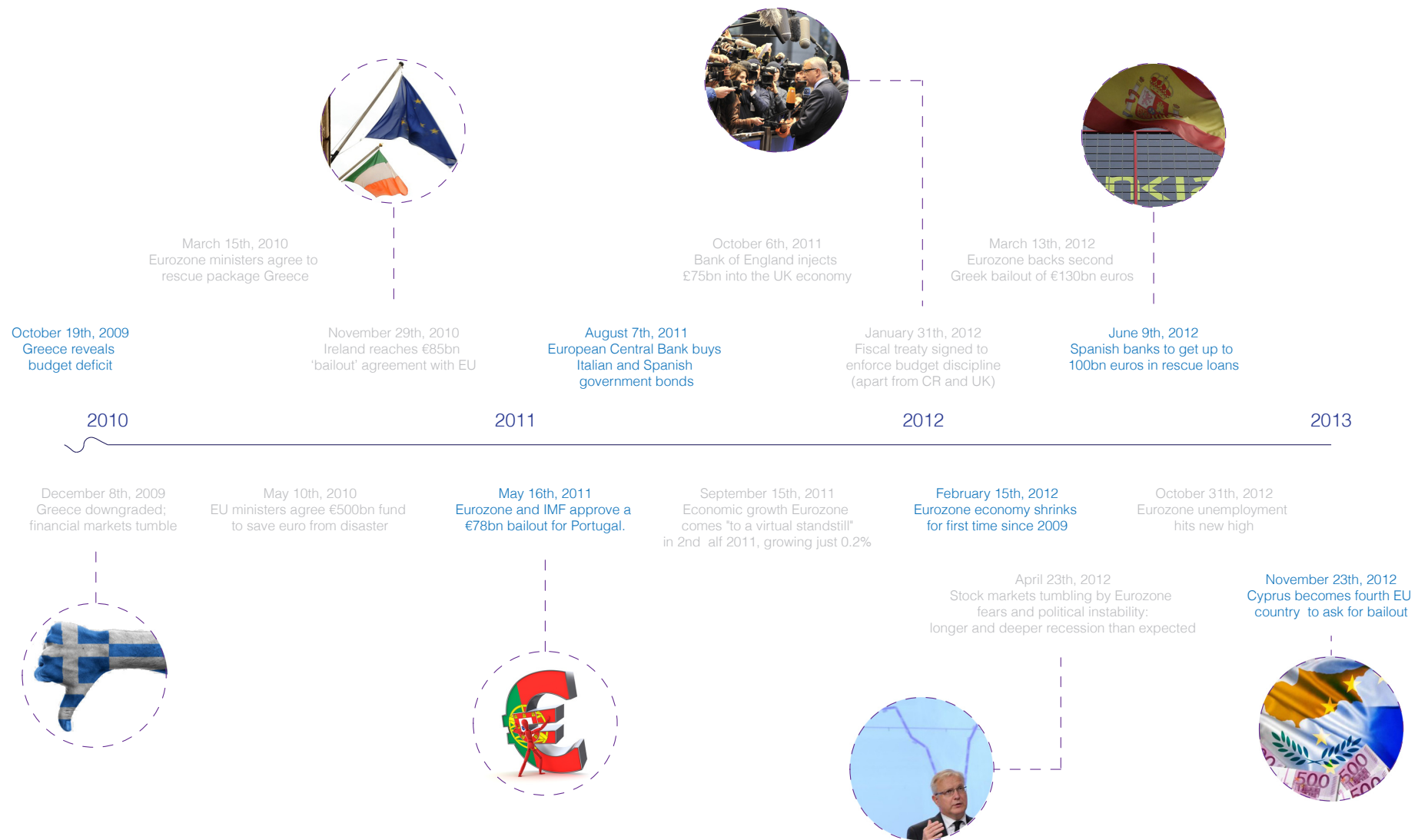


Figure 20: Timeline Eurocrisis

9.3 INDICATORS

Four indicators are projected that are representative for the developments in the global economic context: (1) stock exchange indices, (2) consumer confidence, (3) GDP, and (4) EURIBOR interest rates. The indicators have been tested on validity, objectivity and availability.

Note: The financial-economic indicators are used to gain insight in the basic economic working principles, necessary for the author to require a complete picture of a multinational's activities. Furthermore, it provides the data to clarify decisions regarding real estate. The indicators do however not present a thorough economic analysis.

9.3.1 STOCK EXCHANGE INDICES

The stock exchange is a financial market - fully regulated by demand and supply – where all kinds of securities are traded. The stock exchange can either be used by corporations and governments to raise capital, or by investors to sell securities for cash. The first stock exchange was founded in Amsterdam in 1602. Currently, the biggest stock exchanges are located in Asia.

The indices are merely a mathematical average to picture the stock market. All measure the average value derived from price movements of certain stocks. Empirical research has demonstrated the relationship between stock exchange and consumer confidence many times. The relationship is twofold: first, higher stock prices directly create bigger wealth and greater optimism. Jansen and Nahuis (2003) do note that the effect of the relationship is less important in Europe, since fewer households invest in stocks. Second, the rise of stock prices is interpreted and documented by independent institutions, whose indicators have an indirect influence on the confidence of all consumers (Jansen and Nahuis 2002). We assume the relationship will affect multinationals primarily through the indirect relationship, the development of the demand.

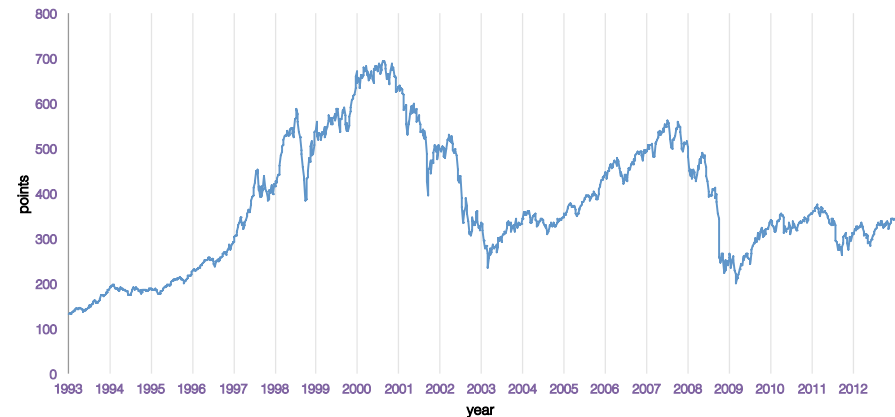


Figure 21: AEX-index, Amsterdam, the Netherlands

Four important global indices are pictured: NASDAQ (New York City, United States); London Stock Exchange (London, United Kingdom); Tokyo Stock Exchange (Tokyo, Japan); Shanghai Stock Exchange (China, Shanghai). The AEX-index (Amsterdam, The Netherlands) is illustrated, but is not considered a representative stock exchange to picture the global economy, for it is dominated by three major stocks: Shell, Unilever and ING. The weight of these stocks is over 40% of the total stock exchange.

The NASDAQ Composite 100 (New York City, United States) is an American stock exchange founded in 1971, especially focused on technology. The NASDAQ is an electronic stock market with over 3000 listed companies. It is increasingly important since all manufacturing companies have been shipped to China and India, such that technological companies drive the American economy these days. The course of the NASDAQ perfectly highlights the predominant event in the beginning of the 21st century: the Internet or dot-com bubble. The over-confidence in technological advancements led to increasing stock prices. The basic principles of investment theory – analysing return before investing - were ignored, as investors were afraid to miss out on the next big hit. The Dutch entitled the run on stocks the '*camping rally*', illustrating the huge amount of private investors eager to make quick money at any point in time (Willems 2013).

The speculative bubble climaxed on the 10th of March 2000, with the NASDAQ peaking at 5132. This was followed by a spectacular crash, with huge numbers of start-ups going bust. Between 2000 and 2002, more than five billion US dollars (10^{12}) was wiped off the market value of technology companies. In the Netherlands, the fall of Nina Brink's World Online in March 2000 led the burst of the bubble (Willems 2013). The World Online share price tumbled after its introduction on the AEX; its value plunged from 12 billion euros to 5 billion euros in one week. The burst of the bubble was felt globally, especially in the developed economies.

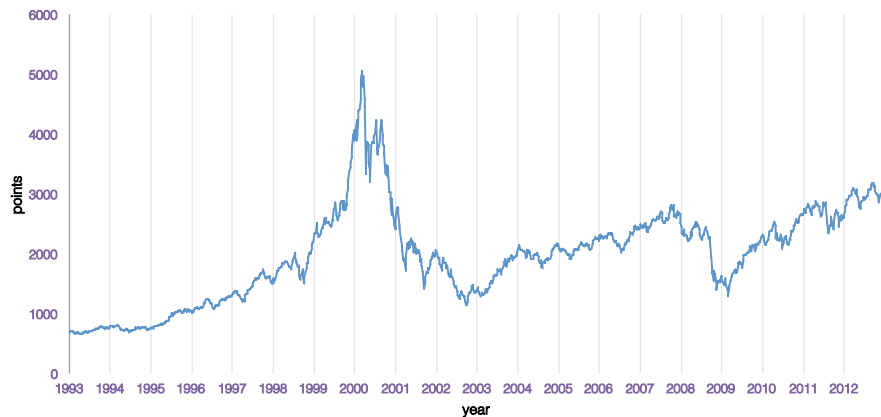


Figure 22: NASDAQ 100 – index, New York, United States

In the years preceding – the 1990s – the Western economy had been recovering from the crisis in the 1980s. Confidence had been building up. Meanwhile, Asia suffered from a financial crisis in 1997, which started with the fall of the Thai currency: the Baht. Japan, as biggest economy in the region, was hit severely but was able to recover shortly after. The Asian financial crisis highlighted the financial weaknesses of the Chinese economy, especially relying too much on the trade with the United States. The crisis became broader and deeper than it had been anticipated. Although the West was startled by the Asian crisis, the actual impact on the Western economies was quite small since the dependence on the Asian economy at that time was little. However, Western stock exchanges did react negatively on the near collapse of the Long-Term Capital Management (LTCM) hedge fund

in 1998, an indirect effect of the Asian crisis. The hedge fund had taken huge losses following the collapse of the Russian economy in August 1998. The Federal Reserve stepped in to preserve LTCM from bankruptcy, as its size meant it was too big to fall (Willems 2013).

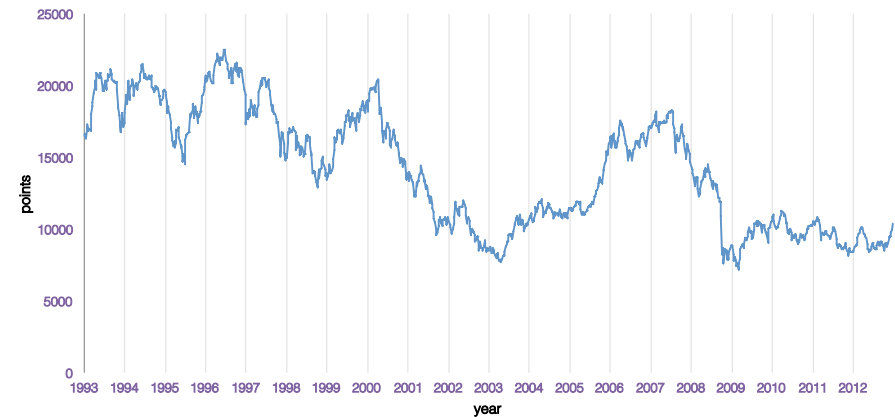


Figure 23: NIKKEI-index, Tokyo, Japan

The effects of the bubble on global stock exchanges slowly projected on the Western economies. The terrorist attack on the World Trade Centre in New York on September 11th 2001 caused all stock exchanges to fall even further. Financial markets were hit in the heart of its operations. Economic and societal effects became visible, with rising unemployment and low confidence among people. Governments and financial institutions, including the European Central Bank (ECB) and the Federal Reserve (FED), reacted by lowering interest rates to stimulate the economy. It took up to 2004 for global economies to recover. In the meanwhile, so-called '*koopjesjagers*' made stock exchanges revive a few times (Willems 2013).

Before reaching another climax in 2007, the global economy was harmed by the Indian Ocean tsunami (December 2004) and hurricane Katrina (August 2005). The FTSE eventually even reached pre-bubble levels. However, a new bubble had been inflating in the meantime: the real estate bubble. The real estate bubble caused the credit crunch that

started in America, and spread across the globe in 2008. Both China and Japan were hit hard because of their great participation in, and relation with, the Western economics – overseas demand for China's exports shrank – whilst the vast majority of development countries (among them the BRIC-countries) kept on growing. As a reaction, Chinese Premier Wen Jiabao said: “As part of re-launching the economy, the country has to focus now on expanding domestic consumer demand” (BBC News 2009).

The United States got the situation under control in 2009, with the large-scale measures of new chosen president Barack Obama. Both the DOW Jones and the NASDAQ have reached pre-bubble levels, stimulated by the favourable dollar exchange rate. Europe however ended up in the next crisis after Greece – as first of several European member states – publicly admitted its bankruptcy in 2010. The Eurozone crisis turned out to be more intense than could have ever been expected. Numerous European countries – including Spain, Ireland, Portugal and Cyprus – asked for financial help from 2010 onwards to prevent them from collapsing under their crushing debts. The Eurozone is facing years of budget deficits.

9.3.2 CONSUMER CONFIDENCE

The consumer trust or confidence is the degree of optimism that consumers are expressing for the state of the economy. It is related to the performance of the economy and influenced by employment rates and GDP growth. The consumer confidence is measured among households and is composed of (1) the trust in current and future economic situation and (2) the financial situation of the households: their ability and willingness to buy (CBS 2013). The indicator is directly linked to the private consumption (spending) behaviour on the short term. For instance, a (continuing) negative outlook indicates less (big-item) retail purchases by consumers. Manufacturers, banks and the government are assumed to react on these developments.

The consumer confidence differs greatly per region and country. Countries use different methods to calculate the consumer confidence index. We compare the development of the consumer trust of China, the United States, Japan, the United Kingdom and the Netherlands.



Figure 24: Netherlands consumer confidence (TradingEconomics)

The Dutch consumer confidence is calibrated at zero. Consumer trust in the Netherlands increased from 1993 until 1997, after reaching the all time low (-48) in the mid 1980s. The Dutch lost some confidence in the economic climate in 1998, but remained positive; confidence climaxed in 2000 following the technological developments. After the burst of the dot-com bubble, the rising unemployment rates kept confidence low. As the Dutch were recovering from the credit crunch in 2009 and 2010, they never reached pre-crisis confidence before falling into an even bigger recession due to the Eurozone crisis. Consumer trust in the Netherlands ended up, for the first time since the 1980s, lower than the European average in 2011 and 2012 (CBS 2012). Households, especially the wealthiest ones, keep their money on the bank: households are primarily pessimistic about their personal financial situation.



Figure 25: United States consumer confidence (TradingEconomics)

The United States consumer confidence is calibrated in 1985 at 100. Comparable trends with the Netherlands and the United Kingdom can be noticed, influenced by the dot-com bubble and the credit crunch. Remarkable are the tumbling confidence in 2003, when US consumers realized that a turnaround in the labour market was not around the corner (Gongloff 2003); and in 2012, when reformations in the labour market were considered too slow (Homan 2012). The confidence is now slowly climbing.

China experienced the effects of the Asia Pacific financial crisis in 1998, although consumers remained overall optimistic. The economic growth slowed down, due to the financial crisis and the floods that hit China that year. The export volume declined; China's focus changed to the domestic market (China Consulate 2003). From that point on, the market and consumer confidence kept on growing. The sharp slowdown in 2003, caused by the 'severe acute respiratory syndrome' (SARS), could not stop the growth.

China consumer confidence is now fluctuating as it is dealing with the effects of the financial crisis in the west: "Consumer confidence lost momentum in the second quarter as global events, including a worsening Euro zone crisis coupled with slowing growth rates in China and India, impacted financial markets and consumer sentiment in many parts of the world" (Frighetto 2012). The economic and political uncertainty in the global markets restrains consumers from spending and consumption intentions in the first months of 2012.



Figure 26: China consumer confidence (Source: TradingEconomics)

Japan is an exporting country, but nobody is buying. "Japan has experienced a brutal deflationary cycle for much of the past two decades, leading to increasingly expensive debt and consumer reluctance" (Cole 2009). The 2011 tsunami and earthquake worsened Japan's position and the consumers' confidence.

Differences in the development of the consumer confidence can be partly assigned to the cultural differences: Dutch people have a different character – assumed to be less optimistic – than American people, reflected in the extent of the rise and fall of the consumer confidence.

9.3.3 GDP

The GDP (gross domestic product) is the most important indicator for the economic development of a country. It measures the overall market value of all goods and services produced in a country in a given year, which represent all consumer, investment and government spending, plus the value of exports, minus the value of imports (CBS 2012). The GDP per capita measures the total added value per person. Use is made of the GDP per capita growth, as this makes it possible to measure and compare the development of the economy with other countries. The growth of the GDP per capita is directly related to the economic perspective. We compare the GDP growth of China, the United States, Japan, the United Kingdom and the Netherlands.

As for all countries, the GDP per capita has grown over the past two decades. We see comparable trends for the United States, the United Kingdom and the Netherlands. The GDP per capita has been stable in the United States. China's GDP per capita development (growth) is relatively the biggest.

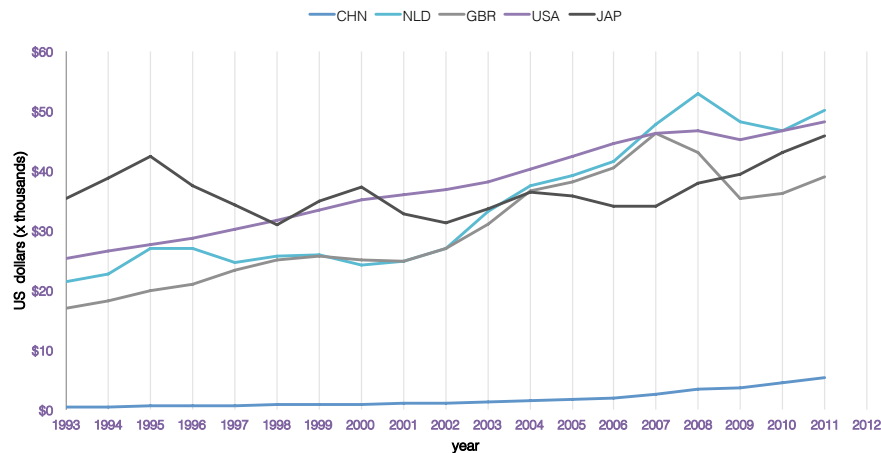


Figure 27: GDP per capita (2012 U.S. dollars)

The development of China's economy can be clearly seen in the GDP growth (%). It has been positive over the full timespan, with minor growth during the Asia Pacific and Western financial crises. The GDP growth in the Western countries fluctuates between the zero and five per cent. Only the credit crunch has hit all economies heavily.

As the wealth in China is slowly growing, more and more people get (financial) access to Western products and services. As the Chinese households have more to spend, multinationals can sell more products in that region. Neighbouring countries such as South Korea, Vietnam and Taiwan show comparable growth. The GDP growth is expected to continue along with economic growth.



Figure 28: GDP growth: based on constant local currency

9.3.4 EURIBOR INTEREST RATES

Euribor is short for the Euro Interbank Offered Rate, established in January 1999. The Euribor represents the average interest rates at which the vast majority of European banks (around 50 panel banks) lend money to one another. The Euribor interest rates are established and presented daily. There are fifteen different Euribor rates with different maturities. The Euribor rates serve as reference rate for a lot of financial products, such as interest rate swaps, savings accounts, loans and mortgages (Euribor NL 2012). The Euribor measures the confidence between banks. The interest rate level is established by weighing supply and demand, and takes into consideration economic parameters such as the economic growth, the inflation rate, the creditworthiness of banks and the consumer trust.

The Euribor interest rate is linked to the economic situation. After the introduction of the Euribor in 1998, the index rose quickly along with the economic prosperity in Europe. The index hit the 5% mark in 2000, as banks were anticipating on market signs. The dot-com bubble burst and made the economic markets vulnerable; people became pessimistic about the future. The Euribor rates were lowered to stimulate the banking system. After a recovery period for three years (2001 – 2004), the economy revived. The Euribor rates were gradually increased, especially to head of inflation in the Eurozone.

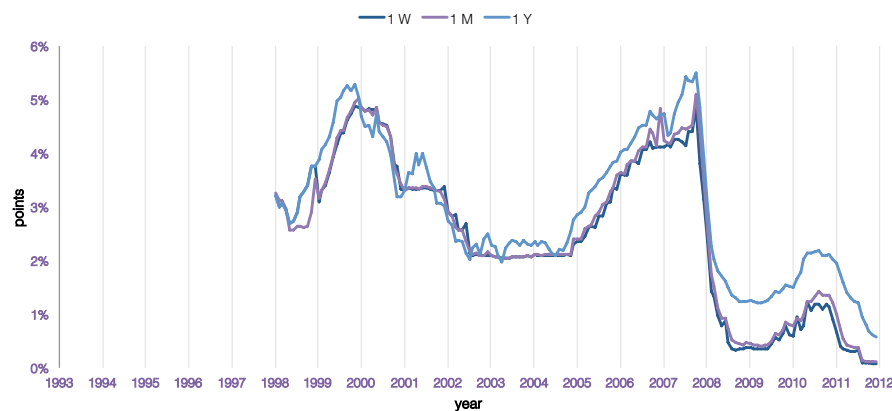


Figure 29: Euribor interest rates

As the first signs of a new recession became visible, the interest rates skyrocket again. Along came the credit crunch in 2008. The financial system collapsed; both banks and consumers lost their confidence. From the fall of Lehman Brothers in 2008, the Euribor rates have been kept artificially low to keep the system running; people have to be able to pay off their mortgages and loans. Low interest rates result in low prices of bank borrowing (consumer borrowing money to a bank), such that the bank can re-borrow money to others at lower costs leading to: (1) with low prices, more people borrowing money from the bank and (2) with high prices, more profit to be made for the banks. The interest rates decreased below 1% in 2009. Banks are thereby stimulated to lend each other and to lend consumers money. However, banks remained unwilling to lend each other money such that the European Central Bank has to act as provider.

Experts believe the Euribor interest rates will remain as low as possible until at least 2014. The European Central Bank will provide sufficient credit; the over-supply of money will keep the interest rates down (ING, 2013). It is cheap to lend money in the Eurozone. This might be beneficial for companies – multinationals – that want to invest.

Which relevant indicators define the macro-economic context?

9.4 CONCLUSION MACRO-ECONOMIC CONTEXT

The macro-economic indicators represent the social-economic state of affairs of the different continents. The continents encountered both global and continent specific events over the past twenty years. The stock exchange, consumer confidence and Euribor rate indices are closely related; the GDP development is dependent on these indicators. One indicator can be dealt with slightly different in one country than another. Stock markets are for instance more important in America than in Europe: in America, the connection with the consumer confidence is much stronger. Overall, there have been changes in the social, economic and organizational structure that influenced the activities of the multinational corporations. These are the (1) Asia Pacific crisis, (2) the dot-com bubble, (3) the real estate bubble and (4) the Eurozone crisis. The four key events are shown in Figure 30.

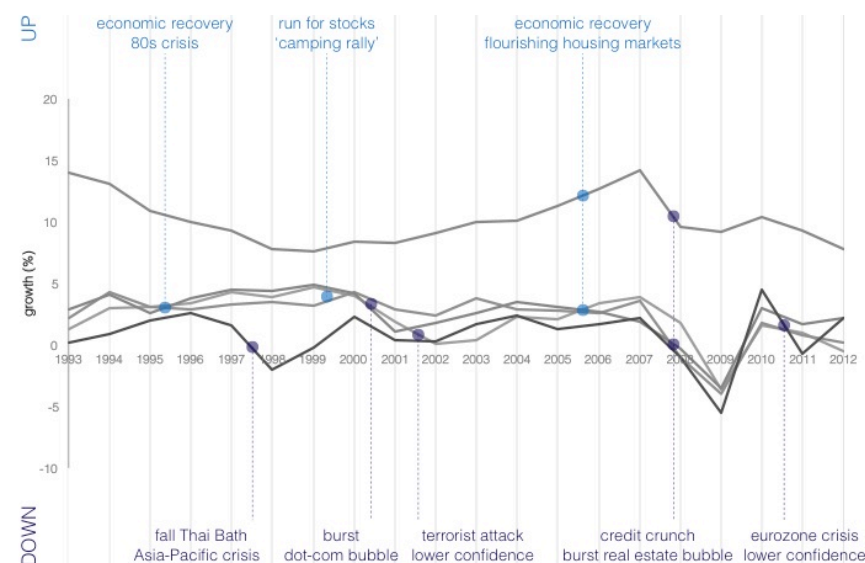


Figure 30: GDP growth related to events

Along with these events, there has been a shift in dominance. First and foremost, the rise of Asia during the beginning of the 21st century has strengthened the connection between the Asian and Western (economic) markets. Over time, Asian countries have invested more in their home domestic markets, a result of the Asia Pacific crisis in the 1990s. The introduction of the Internet has resulted in major changes in our social and economic behaviour. The markets have developed both location and content wise.

All Western countries, or countries with a direct social-economic relation with the West, nowadays experience the effects of the financial crisis: "Consumers around the world grappled with increasing economic concerns as the Euro zone crisis spread from troubled to core countries, the United States fiscal cliff threat loomed large, and China's rising inflation sparked monetary policy action" (Nielsen 2013). Multinationals have used these crisis years to shift their focus.

The corporate strategy and business results of the multinationals are expected to be influenced by the events. Depending on the industry in which the multinationals are active, they have been forced to make small or large adjustments.

10 BUSINESS MARKET (SECTOR)

A sector or industry defines the type of activities of the corporations belonging to that sector. These activities tell something about the corporations' business models, including goals, objectives and resources. Pearce and Michael (2006) pointed out: "Recessions will affect industries differently, depending on whether they are cyclical, counter-cyclical or non-cyclical" (Pearce and Michael 2006). Next to financial-economic factors, social and geographical influences have to be considered as well. It is important to understand the market characteristics – such as size, competitiveness, geography, target group and innovation – to understand the role and performance of a corporation within that sector.

10.1 FAST MOVING CONSUMER GOODS SECTOR

Fast Moving Consumer Goods (FMCG) are products with a swift turnover and relatively low costs. The goods or items are generally replaced from a day to a year. The FMCG industry is composed of both food and non-food products, but can broadly be categorized into three segments:

- (1) Household items: soaps, detergents, household accessories, etc.;
- (2) Personal care items: shampoos, toothpaste, shaving products, etc. and;
- (3) Food and Beverages: snacks, processed foods, tea, coffee, edible oils, soft drinks etc.

Profit margins on FMCG products are relatively low. The high demand can cause transportation and distribution costs to be quite high. Corporations however distribute large volumes through their extensive networks. Multinationals compete with each other and with local manufacturers. Most FMCG products are considered primary needs, which ensures

consistent sales numbers. According to Pearce and Michael (2006), FMCG is one of a several counter-cyclical industries that experience increased sales during recessions (Pearce and Michael 2006). Global leaders in the FMCG segment are for instance Nestlé, Unilever, Procter & Gamble, Coca-Cola, Kleenex, General Mills, Pepsi, Gillette etc.

The Fast Moving Consumer Goods sector is adapting to the new market circumstances created by the financial crisis. Corporations can either choose for (1) product diversification, (2) regional diversification or (3) a combination of both, depending on the activities and means of the company. Although most products are primary goods and therefore only very limited related to the development of consumer confidence, the market has changed. Consumers have become price conscious. The competition has led to price wars within developed countries. Retailers are introducing competing private-label brands more and more (Motivaction 2013). Focus has shifted towards upcoming markets. Multinationals try to outrun local producers: branding has become even more important.

In addition, the market environment is changing due to technological developments. The rise of online shopping has been enormous in the past years and will keep on growing. The internet is stimulating fierce competition, for transparency and accessibility of the market has grown. Research has shown that over 75% of the Dutch consumers first look at household products online, before buying these (Ouden den, Boersta et al. 2012).

10.1.1 SALES NUMBERS

The sales number development for the FMCG sector is subject to the development and the consequences of several social-economic trends: e.g. the financial crisis, population growth, upcoming markets, internet, media etc.

The financial crisis does influence the development, although these effects do not directly have a negative effect on the overall sales numbers. In times of recession, unemployment rises, credit becomes less available, consumers are unwilling to spend and competitors engage in price-cutting and other desperate moves to produce sales (Pearce and Michael 2006). Corporations focused on new business approaches in the past decade to fight the battle for market share and attention. The fall in personal disposable income in Western countries is compensated by a rise of income in emerging markets; population growth has

also lead to higher sales numbers. Unilever's figures confirm these statements: according to CEO Paul Polman, overall quarterly sales in the third quarter of 2012 improved with almost 6%, despite intense competition, depressed economies and high global volatility (RTT News 2012).

The market size of the FMCG sector grew by about 5% a year over the past decade to reach \$7 trillion in 2010 (Severin, Hirose et al. 2011). The research shows 83% of that spending was concentrated in three segments: (1) food and beverages, (2) apparel and accessories and (3) alcoholic drinks. The forecasts expect consumer spending worldwide to grow by \$5 trillion up to 2020, almost double the growth seen in the previous decade.

10.1.2 GEOGRAPHIC DISTRIBUTION

The attention has shifted towards emerging countries. The Central and Eastern European market is comprised of more than 300 million consumers and is still a large growth market. However, enormous countries like China and India offer major opportunities (Veit 2011). The GDP per capita is rapidly increasing: Figure 28.

Figures of McKinsey & Company (2011) show that over 5 billion people live in 37 countries where nominal GDP per capita is in most cases less than \$1000 a year. Although these countries represent almost 70% of the world's population, these emerging-market consumers account for only 35% of the world's GDP. According to McKinsey & Company, this is changing: over the next 10 years, consumer spending in emerging markets is expected to grow three times faster than consumer spending in developed nations, reaching a total of \$6 trillion by 2020 (Severin, Hirose et al. 2011). This means that in 2020, emerging markets will represent close to 50% of total consumer spending and about 70% of the overall growth in consumer spending from 2010 to 2020. India is currently the biggest consumer market in the world with 700 million people.

In practice, Unilever's 2012 sales figures show the regional focus: Asia - AMET - RUB – which includes among others Russia, Australia and Africa - grew with 10,7% in 2012; the Americas (north and south) grew by 4,7% and Europe's sales increased by 0,9% (RTT News 2012)

10.1.3 TARGET GROUPS

The target group for the FMCG sector is the entire world population. However, big brands – multinationals – are dependent on the economic development of the emerging countries to be able to reach their population. Financially, more and more people globally are able to afford the products. The development of the Asian market has resulted in billions of new customers in the first decade of the twenty-first century. In the following decade, the focus will shift towards African households, comprising over 800 million people.

The target group is growing, but at the same time is changing. The consumer has become more price-conscious. Marketers have less control over their brands; consumers are acquiring more influence (Motivaction 2013). Internet has stimulated the demand for transparency and information sharing. Corporations have to zoom in on consumers' needs and preferences.

10.2 INDUSTRIAL SECTOR

The industrial sector is a broad term. Industrial corporations are divided in different categories. In this report, we focus on primary and secondary industrial companies. Primary industry concerns corporations that extract resources directly from the Earth. The primary sector includes the production of raw material and basic foods. Secondary industry processes raw materials. All of manufacturing, processing, and construction lies within the secondary sector (Rosenberg 2013).

Both the chemicals and oil & gas industry deliver the majority of the products to other industries; a small percentage is directly provided to consumers. Major industrial companies produce the goods and have distribution channels all over the world: the industry has a global selling market. The petroleum sector – in which Shell is one of the market leaders – is one of the biggest in the world. The market has been instable due to disorder in the Middle East. However, the scarcity has only increased demand, driving up the prices. After all, raw materials are needed for tons of production processes, including the chemicals industry.

10.2.1 SALES NUMBERS

A distinction is made between the development of the sales numbers of the chemicals and the oil & gas industry. The former is solely dependent on the economic situation, whilst the latter is also influenced by the political situation in specific areas. The oil & gas industry is a typical supply and demand market. Prices are dependent on the political-economic situation in production regions and thereby affect sales numbers. Several crises in the past decades have proved this relationship, like the Arab oil embargo of 1973, the Iranian revolution in 1978 – '79 and Saddam Hussein's invasion of Kuwait in 1990 (The Economist 2011). Since the late 1980s, the sphere of what the oil industry is being held responsible for has expanded to include issues relating to a broader social agenda, in particular in the fields of environmental sustainability and human rights. This set of challenges deepened the legitimacy crisis the oil industry experienced in the 1990s.

The crisis in the Middle East did affect the oil production. The Middle East and North Africa produce more than one-third of the world's oil (The Economist 2011). Libya's turmoil shows that a revolution can quickly disrupt oil supply: in 2011, the uprising sent oil prices considerably higher as 1,6 million barrels a day were halted for several months. In addition, production in Syria and Yemen is minimal due to domestic conflict.

	(millions of barrels per day)				
	2007	2008	2009	2010	2011
ExxonMobil	2.6	2.4	2.4	2.4	2.3
Chevron	1.7	1.6	1.9	1.9	1.8
BP plc	2.4	2.4	2.5	2.4	2.1
Royal Dutch Shell plc	1.8	1.7	1.7	1.7	1.7
ConocoPhillips	1.0	1.0	1.0	1.0	0.7
Total	9.5	9.1	9.5	9.4	8.6

Figure 31: Crude oil production of 5 major oil companies

Prices heavily fluctuated again in the past years due to the oil crisis in the Middle East. However, production or sales numbers do not directly react to higher or lower prices: rising oil prices in 2007 – 2008 and 2010 – 2011 did not result in observably higher production. Research concerning the activities of the five major oil companies in the period 2007 to 2011

concluded: "The companies' production of both crude oil and natural gas, their two key products, remained largely unchanged in the face of volatile prices, suggesting that for these firms, market price and the production of key products are not closely related" (Pirog 2012). Together they produced a total of almost ten million barrels a day. The total revenues and net incomes of the five major oil companies followed a similar pattern as well. As production remained stable, price movements determined the revenues: revenues of the five major oil companies increased by 24% from 2007 to 2008, as oil prices increased by 38%; from 2008 to 2009 oil prices fell by 36%: revenues declined by 36%; and in 2009, the price recovered (28% up): revenues increased by 26% (Pirog 2012).

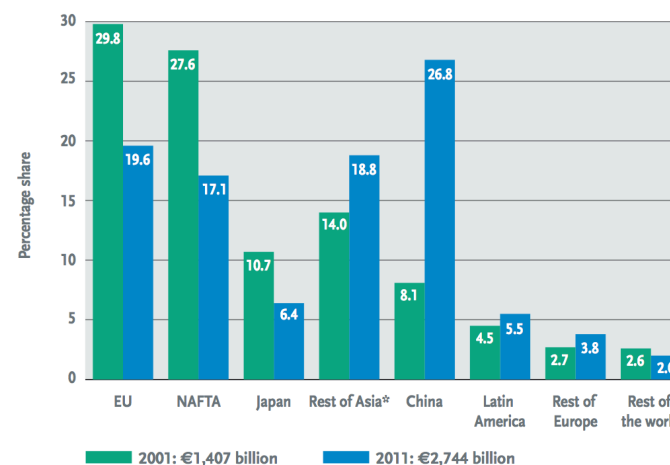


Figure 32: World chemicals sales by region: 2001 – 2011 (Cefic 2012)

The chemicals industry is changing. The sales of chemicals and products – domain of AkzoNobel – have dropped in Western companies due to the financial crisis whilst upcoming industries compensated the loss of sales in the West. In 1991, the global chemicals market was worth 819 billion euros (Cefic 2012). The global chemicals market has continued to grow in the past decades, despite minor setbacks in 2001 and 2008. The decrease in production in 2001 hit all continents but Europe. According to Adams, consumer demand was strong so the drop in growth was a supply-side issue: "Surplus corporate investment crushing profitability and ultimately tainting other parts of the

economy" (Adams 2002). In 2004, the world produced 1.776 billion euros worth of chemical products. Already then, Asia was catching up fast, but Europe still produced the most: 586 billion euros. The United States accounted for 415 billion; Japan for 185 billion. In 2004, growth in the EU chemical industry was 2,5%, compared with 2,3% for the economy as a whole (Lawton 2006).

Now, world chemicals turnover is valued at 2.744 billion euros in 2011. The industry recovered from the financial crisis: global sales in value terms were up in 2011 by 11,6% compared to 2010 (Cefic 2012). The role of emerging economies has changed, as predicted in 2004. Chemicals sale in Asia currently doubles that of Europe. Europe's total market share nearly halved in the past twenty years, from 36% in 1991 to 20% (642 billion euros) in 2011.

10.2.2 GEOGRAPHIC DISTRIBUTION

The oil & gas industry is globally active. Production is centralized around unstable regions in the 'strategic ellipse' – stretching from the Persian Gulf to the Caspian Sea and North West Siberia – and the importance of this region will grow with the depletion of the oil and gas reserves in the European OECD countries (Dirmoser 2007). Research in 2004 appointed North America, Australasia and Europe as main consuming regions. Consumption figures of 2009 (Salam and Baruni 2009) confirm these conclusions.

Oil per region	Production (x1000 barrels per day)	Consumption (x1000 barrels per day)
North America	14.670	25.024
South and Central America	7.121	5.493
Europe	19.147	20.100
Middle East	27.029	6.203
Africa	11.077	3.955
Asia Pacific	8.489	25.944
World	87.533	86.716

Table 12: Oil consumption per region 2008 (Salam and Baruni 2009)

World demand for energy, and in particular oil & gas, has grown rapidly the past two decades. High growth rates and successful developments in several newly industrialized nations have contributed to a narrowing of the market (Dirmoser 2007). In 1993 China had to import oil for the first time. Its import requirements are growing ever since. China is now the second largest oil consumer after the USA. In a 2012 survey under oil & gas companies, respondents acknowledged the importance of the Middle East, China and Brazil as emerging markets. India and China show strong economic growth, along with high demand for oil and gas.

The chemicals market is also dominated by China. Its sales volume has tripled in the past decade. Asia accounts for over 50% of the global sales volume and is responsible for the steady growth of the sector. According to sales numbers of AkzoNobel in 2011, about 40% of their business is generated from fast-growing markets now, which includes Asia, Latin America as well as parts of Eastern Europe and this will grow to more than 50% in a few years' time (Suratman 2012). This is illustrated by the decision to sell its North American decorative paints operations (for a total of 800 million euros) for AkzoNobel wants to concentrate its decorative paints activities in Europe and high growth regions (Brown 2012).

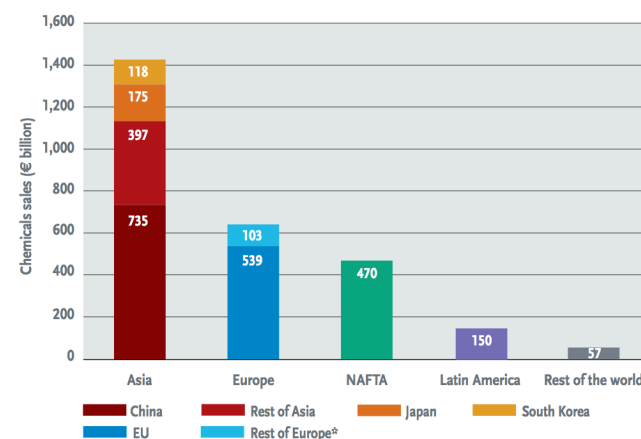


Figure 33: World chemicals sales: geographic breakdown 2011 (Cefic 2012)

10.2.3 TARGET GROUPS

The target groups of the industrial sector didn't really change in the past decades. The vast majority of the products go to other industries. The activities of these industries are only subject to the economic conjuncture. Nowadays, focus is on sustainable development more and more. In that field are both the threats and opportunities.

The consumer market, although it has a small share in the sales volumes, has grown due to population growth and GDP growth in Asian countries. Companies react to these changes by advertising more and more in the Asian region.

10.3 FINANCIAL SECTOR

The financial sector comprises all corporations that provide financial services to customers. Most important players are banks, investment funds and insurance companies. Large financial institutions provide a combination of these services. This research focuses on banks in particular. The banks are, or have been, active abroad.

The financial world has changed permanently. The cheap-money, high leverage banking model that delivered high returns with low risk through the middle of the last decade was decisively ended by the financial crisis (Gera and Pichler 2012). Doubtful operations and activities have come to light. Strict regulations determine how banks will be allowed to operate in the future.

10.3.1 SALES NUMBERS

Banks in the US and Europe suffered immense losses during the crisis, partly as a result of excessive risk taking and investment in complex products that they did not fully understand (Pennington and Thornton 2010). The crisis has led to increased volatility and a difficult trading environment in especially Western geographies such as the US and Spain, and in many areas of business: investment banking revenues, commercial property and mortgages (Gera and Pichler 2012).

The size of the global financial market has grown over the past two decades, although there are large regional differences. In 2011, global revenues within the banking sector grew by just 3% to 3,4 trillion dollars, compared to a 9% growth from 2009 to 2010 (Daruvala, Dietz et al. 2012). Notable are the revenues from private clients, which grew by 6% to 1,8 trillion dollars in 2011, accounting for 53% of the global sector revenues.

Through the crisis years (2008-2009), as liquidity dried up, economies soured and risks flowed back onto balance sheets. The average return on equity (ROE) – return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet – of banks in developed markets dropped to about 4%, with many banks slipping deep into the red. However, by 2010 the immediate crisis had passed (Gera and Pichler 2012). Average profitability recovered, but is now only half of its peak value before the financial crisis: ROE 13,6% in 2007. The global average ROE fell to 7,6% in 2011, after it improved to 8,4% 2010 (Daruvala, Dietz et al. 2012).



Figure 34: Average Return on Equity: global development and forecast (Gera and Pichler, 2011)

In Europe, the Eurozone crisis has put both banks and governments under pressure. There is great disparity within the region. In Western Europe, revenues after risk costs reached 761 billion dollars in 2011: a revenues drop of 16% from 2007. Spanish, Italian, and Greek banks were heavily dependent on ECB (European Central Bank) operations. European banks are

forced to stabilize their capital and funding sources, and clean up balance sheets. In addition, they must improve their revenue and cost bases (Daruvala, Dietz et al. 2012).

10.3.2 GEOGRAPHIC DISTRIBUTION

Following the financial crisis, the differentiation in the global banking system has become clear. Banks in emerging markets nowadays are well capitalized and well funded and big enough to compete directly against their western counterparts in the global marketplace (Pennington and Thornton 2010).

US banks had an average ROE of 7% in 2011, a rise of 0,8% from 2010. Europe reached an average ROE of 0%. If Greece, Italy, Ireland, Portugal and Spain are excluded, the 2011 average ROE is 5%: see Figure 35. Emerging Asia banks – excluding Australia and Japan – earned an ROE of 17% in 2011, compared with 15% in 2010. Increasing risk costs (+10% from 2010 to 2011) highlighted the fact that they are not isolated from the global macroeconomic environment. Latin American banking revenues grew by 15% in 2011 and Eastern European revenues expanded by 14%. Revenue growth in Middle East and Africa was only 3% due to the instability of the region.

Region (2011)	US	Europe	ASIA	Latin America
ROE	7%	0%	17%	19%

Table 13: Industry profitability per region

Emerging Asia will to account for more than 39% of global revenue growth. McKinsey & Co does expect an average ROE drop by 3 to 4% because of increased regulatory demands in some markets, as well as declines in asset quality and shifts in consumer dynamics: "Emerging markets will contribute nearly half of all banking revenues around the world by 2020, compared with just one-third today, and will represent 60 per cent of all revenue growth in banking over the next decade" (Daruvala, Dietz et al. 2012)

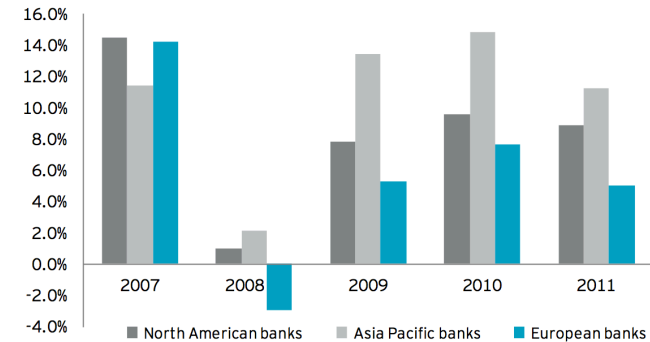


Figure 35: Average ROE among top 40 global banks 2007 – 2011 (Ernst & Young, 2011)

The dominant role of the US dollar and of the US banks is set to give way to a world where other countries, their currencies, their capital markets and banks, all play a greatly enhanced role (Pennington and Thornton, 2010). They have greater potential for growth because of the relatively immature development of their domestic financial markets and their rapidly growing economies.

10.3.3 TARGET GROUPS

It is not so much the target group that is developing, as it is the global financial market itself. There is room for development, as there are still 2,2 out of 2,5 billion people globally – living in Africa, Asia, Latin America and the Middle East – who do not use a bank (Pennington and Thornton 2010). But the financial crisis has led to the necessity of changing the rules of the game, in order to prevent such an enormous financial crisis of happening again.

Governments in the west have made it clear that they want tighter global banking regulation and have called for: "Stronger capital and liquidity standards; a 'fair and substantial' commitment by banks to pay back the cost of government intervention; and tighter regulation to ensure greater supervision and transparency" (Pennington and Thornton 2010).

New regulation requires banks to hold more capital and liquidity to ensure that the industry better withstands future shocks, leading to rising costs of doing business. This has effect on both private and commercial parties who request capital (Daruvala, Dietz et al. 2012).

Uncertainty is pressed to a minimum. Multinationals possibly tend to raise capital on the stock market sooner – or if possible, choose to fund investments by using own capital – than acquiring equity from the bank.

The stronger role of national governments within banking means the future model for banking and corporate governance is likely to be a hybrid of a regulated free market approach and so-called 'state capitalism'. Analysts foresee on-going changes in customer behaviour; with many banking markets seeing customers become more volatile in their relationships and more sophisticated in their buying behaviour, as consumers move to mobile and online channels (Gera and Pichler 2012). Banks need to significantly improve customer relationship management.

Which relevant indicators define the sector performance?

10.4 CONCLUSION SECTOR TRENDS

The trends in the three sectors do not lie that far apart, although the characteristics would indicate otherwise. Business is especially influenced by the geographical development of the macro-economy in the past twenty years. The fall in personal disposable income in Western countries is compensated by a rise of income in emerging markets. The industrial sector has been growing year-on-year because of the growing activities in these emerging, mainly Asian, economies. Whilst the industrial sector is becoming more and more dependent on geographic distribution, the FMCG sector is focussing on social and technological trends. Low profit margins and fierce competition have forced corporations to come up with innovative ways to keep on growing. With the rise of the internet and technological developments, the service sector has completely changed. The rise of digital money has enormous influence on the business model of the financial sector.

The credit crunch has marked the differences between the sectors. The FMCG sector is in a developing phase: innovation can make a corporation outrun competitors. Instead of regional diversification, the FMCG sector focuses on product diversification. The industrial sector is currently consolidating, after enormous growth in the late 1990s and early 2000s. The industrial sector is strongly cyclical because it is dependent on other industries; once all other sectors start recovering, the industrial sector will follow. The financial sector is still recovering. It is under great pressure – not only in Western economies – for trust in the sector has strongly decreased. Regulation has tightened. Financial institutions have to work on the relationship with the customer and find new ways to generate money.

11

REAL ESTATE MARKET (LOCAL)

The research focuses on Dutch multinationals, whose headquarters are located in the Netherlands. The Dutch real estate market can be divided into residential, social and commercial real estate. The activities of multinationals involve offices, business units, retail and production facilities: all part of commercial real estate. A short introduction in corporate real estate is presented, to understand the importance of real estate in the organization. The Dutch office market is analysed and expressed in numbers by means of predefined indicators. The focus is on the financial-economic impact of the office market.

Two important trends have great influence on the further decrease of demand. First and foremost, the decrease of total employment. Employment rates are dropping fast due to the financial crisis. Organizations are shrinking. Second, new ways of working require limited office space, such that the demand for office space per employee is decreasing. Both developments will impact the demand for office space in the future (CPB 2012).

11.1 CORPORATE REAL ESTATE

Corporate real estate asset costs are responsible for an average of 15 – 20% on a corporation's balance sheet (Buijssen 2000; Gibler and Lindholm 2011; Heywood and Kenley 2008). Real estate management is engaging big commitments over a long lifespan. Decisions about real estate investments thus have a major impact on the corporation's business. In principle, corporate real estate has a facilitating role, supporting the primary business processes. Nonetheless, Krumm (1999) states: real estate decisions have direct financial impacts on corporate performance as well as indirect influences through accommodating core business activities. Both corporate managers and real estate

managers are forced to consider real estate from a strategic, as well as a financial perspective (Buijssen 2000).

11.1.1 FINANCE

Corporate real estate requires large investment over a long lifespan, but with relatively low risk and several funding possibilities. Corporations can choose to manage their real estate through sales, lease, rent or funding. In selecting the proper financing model, firms consider costs, risk, liquidity, operational effects and balance ratios. In times of economic downturn, corporations more and more tend to make use of sale-and-leaseback constructions. Roulac et al. (2005) explain the principal reasons for this shift are the need to use working capital in the company's primary business and the long-term flexibility of leasing rather than owning an illiquid asset (Roulac, Adair et al. 2005). This financial method was already seen in the 1990s, when large corporations sold their owned real estate – often on excellent inner city locations – to provide the corporation financial backup to survive the crisis (Brounen and Eichholtz 2003). Sale-and-leaseback enables them to increase their cash flow and improve their asset and debt-to-equity ratios. The proceeds from sale-leasebacks are included in the profit and loss statement, improving the bottom line and the balance sheet (Ray and Rowley 2007). Equally important are increased flexibility and focus on core business practices (Buijssen 2000).

In the Netherlands, corporate real estate ownership has decreased from 20 per cent in the mid-1990s, to 12 per cent in 2009 (RealEffect 2013). With the introduction of (European) 'fair value' accounting systems, the perspective is changing. Corporations will be forced to incorporate lease contracts on their balance sheets: under lease accounting, companies must determine if the lease is capital or operating, the separation of land and buildings – by creating separate accounts for the buildings and land involved in the lease – and amortization of sales and leasebacks (WiseGEEK 2013).

11.1.2 SETTLEMENT

Multinationals have a great influence on the Dutch economy and office market. Settlement of multinational headquarters in the Netherlands gives the economy a boost. According to the report of the '*Topteam Hoofdkantoren*', commissioned by Ministry of Economic Affairs,

Agriculture and Innovation, the Netherlands has an attractive settlement environment. The geography (connection with Europe), the quality of the logistics (mainports and infrastructure), the business culture and the highly educated working population make the Netherlands, and especially the Randstad, highly interesting (Keulen, Smits et al. 2011). In addition, the Netherlands is known for a favourable fiscal environment.

The total added value (direct and indirect) of the thirteen multinationals with headquarters in the Netherlands is over 13 billion euros (Keulen, Smits et al. 2011). Together with the largest one hundred multinationals corporations in the Netherlands, they provide over one million jobs, which equals 12% of the total Dutch working population (KPMG Advisory N.V 2012). Their overall EBITDA within the Netherlands is 17.6 billion euros, representing 2,9% of the Dutch GDP.

11.2 INDICATORS

The local real estate market is developing due to different social and economical trends. Four indicators are projected that are representative for the Dutch real estate market: (1) employment rates, (2) office supply, (3) office vacancy and (4) rent level office market.

11.2.1 EMPLOYMENT RATES

The overall full- and part-time employment rates have been growing steadily. Currently there are almost 8.7 million people working in the Netherlands. At the same time, unemployment has reached 1994 - 1995 top levels: over 500.000 Dutch people within the working population are unemployed (CBS 2012). Unemployment is still rising as the Eurozone crisis continues.

There is a gradual shift in employment composition. Nowadays, most people work in trade, transport and catering, followed by healthcare and business (Sondermeijer 2012). In the past decade, these sectors have been primarily responsible for the growth of the employment sector.

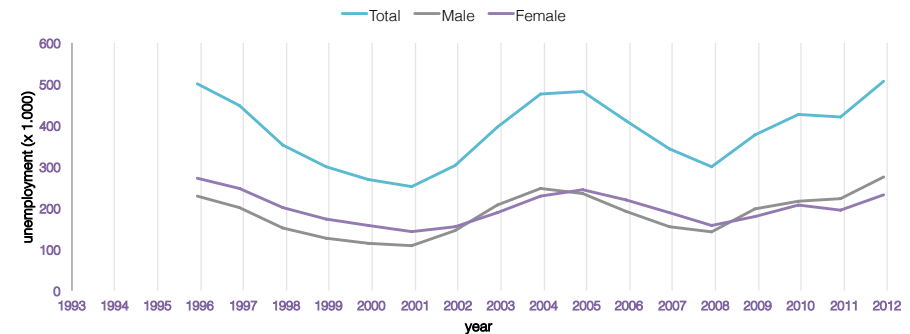


Figure 36: Unemployment rates Netherlands (CBS 2012)

The industry, agriculture and construction sector have halved over 40 years, from 40% domination in 1970, to a 17% share of employment in 2012. The business sector on the other hand has doubled: 23% share in 2012. This development suggests a gradual move from the rural areas to the city, requiring more business and office buildings. The size of governmental employment (including educational institutions) remained stable.

11.2.2 OFFICE SUPPLY

The economic cycle has great influence on real estate investment. From 1995 onwards, the market showed positive signs. The growth of the Dutch office market in the 1990s and early 2000 is the result of a stable growth of the Dutch economy and the continuing importance of the service sector. Nominal mortgage interest rates declined from about 7% in 1995, to 5% in 2001; real interest rates dropped from 5% to incidentally 1% in 2001 (Kreijkes 2009). Whilst the economic growth was high (4% in 1999), the shortage on the office market could be compensated with major and relatively risk-free investments. The market has grown steadily in the years following and stagnated around 2004, before it went sky-high in 2007 (Bak 2012). Whilst the office supply kept on growing from 1993 onwards, the take-up level plunged in 2001 and 2002. From 2007 onwards, the take-up level has fallen again and the Dutch office market is currently facing exceptionally high vacancy rates.

The office stock of the Netherlands has grown 16 million square meters in the past two decades and currently contains 49,1 million square meters office floor space; 14,6% of this

is vacant (DTZ Zadelhoff 2013). The demand for office space is stabilizing after a huge growth in the 90s. (CPB 2012) The Dutch office supply has slightly grown with 4,9% to 7,9 million square meters, caused by decreasing demand due to shrinking organizations, including the government (DTZ Zadelhoff 2013). The demand will not directly grow in the upcoming years. However, the vacancy rates will drop due to extraction of out-dated office space from the total stock.

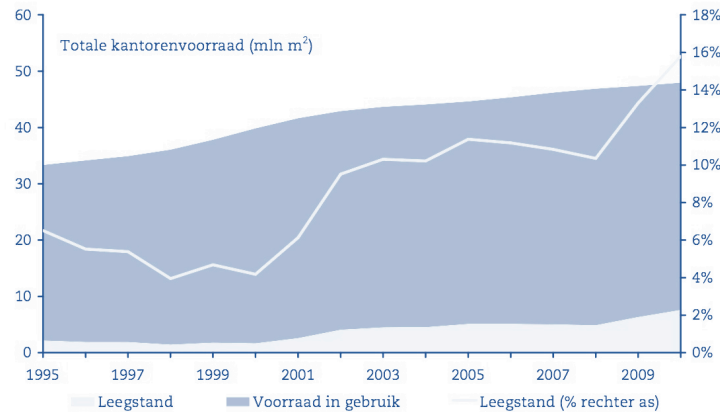


Figure 37: Office supply and vacancy (m2/%) (Zuidema and Elp 2010)

The transaction volume is extremely low. Only 910.000 square meters of office space was taken up in 2012, compared to 1.080.000 square meters in 2011. This is almost half of the pre-crisis years take-up level. As newly built office space was close to zero, almost all transactions took place in the existing office stock (NVM 2013). The take-up share of the government has decreased in the past years whilst the commercial service sector is still growing. In historic perspective the market experienced one of the strongest declines in the past ten years. Less office space was taken up in all size categories and least in the 5.000 m² to 10.000 m² category (Bak 2012). The market for Industrial and business units is struggling as well. Total take-up in 2012 was 2,8 million square meters; a 6,5% decline compared to 2011.

11.2.3 OFFICE VACANCY

The office market is facing high vacancy rates; though it is alarming, it is not unique. The CPB has forecasted a decrease of demand in 2040 to comparable levels of 1990. The best scenario will set the office demand in 2040 at 2003 levels.

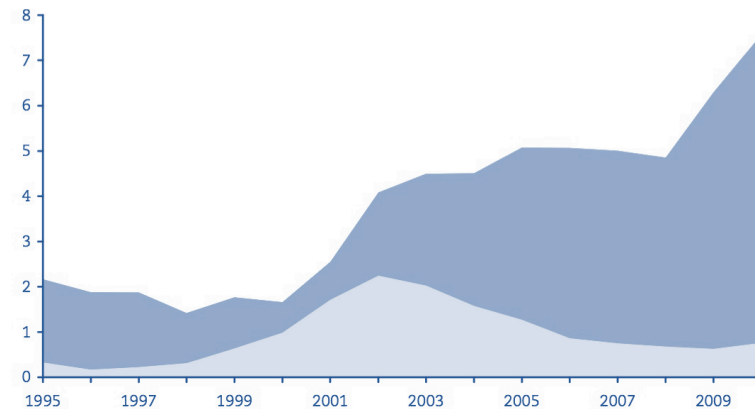


Figure 38: Vacancy existing stock and newly build (x million square meters) (Zuidema and Elp 2010)

A healthy market needs a consistent vacancy rate, also known as frictional vacancy. Frictional vacancy enables the possibility for tenants to relocate. The average vacancy rate should be between 4 and 5% of the total stock (Zuidema and Elp 2010). In the current office market, this would indicate a healthy vacancy of 2.5 million square meters of office space. However, current vacancy levels fluctuate around the 8 million square meters: an overcapacity of 5.5 million square meters.

Vacancy levels have risen since the turn of the century. High-risk investments in office space were made following the office supply shortages in the late 1990s. During those years, a substantial amount of newly built offices was brought to the market creating a surplus of office space. Tenants moved from the existing to the new stock, only stalling the overcapacity problem. The economic recession that followed worsened the situation. The vacancy rates hit unprecedented levels then, in 2003.

11.2.4 RENT LEVEL OFFICE MARKET

The rising uncertainty in the financial markets has put commercial real estate under pressure. As demand is falling, average prices drop; vacancy keeps on growing and the yields are decreasing (Bröcker and Driessen 2013). Investments are largely put on hold. The financial crisis requires investment projects to provide a minimal amount of certainty. Simple, bad-image projects on bad (B-) locations are dismissed. However, investments in the office sector have grown. Investors bought office buildings worth approximately €1.043 million in 2012, slightly more than 2011 (€930 million) but more than twice the amount in 2010 (Bak 2012). Only a small amount of transactions is responsible for this growth, one of which is worth €450 million: the High Tech Campus Eindhoven. The vast amount of investments is located in the Randstad, with preference given to offices in Amsterdam, Rotterdam and The Hague. Remarkably, German property funds represented 37% of the investment volume, which is almost the same as in 2011 (43%) (Bak 2012). Gross initial yields for offices remained almost completely the same.

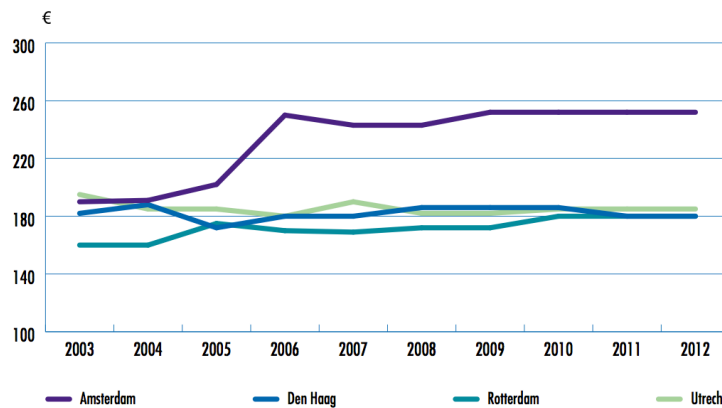


Figure 39: Development average rental prices newly built offices (Bak 2012)

Due to the financial crisis and related high vacancy rates, rents all over the Netherlands are decreasing, with an exception for A-locations. However, the nominal average rental price (newly built offices) shows no decrease; it has settled around €140/m²/year (DTZ 2013). This is caused by the use of incentives: instead of lowering the rental price, owners give out

incentives, for example in the form of rental-free periods. This means the total costs for the tenant over the rental period have most certainly decreased, but the decrease is not shown in the average rental price. For existing properties, the real average rent has indeed decreased for more and more tenants try to renegotiate contracts during the rental period.

The regional differences are very large. The rental prices in the G4 cities are higher than the national average. Amsterdam prices are driven by a few A-locations, such as the South-axes. Although the vacancy level continues to increase, rental prices in the Randstad are not expected to drop due to the popularity of the big (important) A-locations. The trend of movement to new buildings and more attractive locations decreases the value of existing offices in B-locations.

Which relevant indicators define the local real estate market?

11.3 CONCLUSION REAL ESTATE MARKET

The state of the Dutch real estate market is ambiguous. On the one hand, property owners are suffering for they are severely hit by the market deterioration that has deployed with the rise of the credit crunch in 2007; on the other hand, the current environment provides major opportunities for leasing parties and parties that want to enter the market.

Office take-up has decreased year-on-year due to rising unemployment and the introduction of new working concepts. Corporations now deal with (long-term) portfolio vacancy. The market is however unfavourable for disposing parties. Average rent levels have decreased and leave room for negotiation. One way or another, the real estate market stimulates corporate real estate managers to take a close look at their portfolio: there is a lot to be won and to be lost.

D. CASE STUDIES

Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods.



12 AHOLD

Ahold (in full Royal Ahold N.V.) is the holding of an international group of quality supermarkets active in Europe and the United States. Ahold entails food retail and foodservice companies, operating under their own brand name within their own local markets (Singer 2005). In the Netherlands, Ahold exploits Albert Heijn, Etos, Gall & Gall and since recently Bol.com.

The real estate management case study within Ahold is performed through interviews with Wouter Kromkamp, Senior Manager Acquisition Ahold Real Estate Europe, and Joris Janssen, Business Controller Ahold Real Estate. Former real estate strategies are primarily based on research of Kreijkes (2009). Other sources include, among others, research of Krumm (1999) and Singer (2005), corporate real estate management literature and company statements.

12.1 CASE STUDY

Real estate is a key element in the competitive position of Ahold and especially that of Albert Heijn. Location determines success. From the 1990s, the real estate department's objective is to facilitate the business. The real estate strategy is therefore fully influenced by the corporate strategy. In the past decade, Ahold had to survive two crises: the first in 2001 - 2003 and the second from the start of the credit crunch in 2007 onwards. Both crises had a different effect on the business and real estate. Changing consumer behaviour has been leading in the activities.



Figure 40: AEX index Ahold, 1993 – 2012

Ahold was, like many other multinationals, part of – like Willems (2013) calls it – ‘the bigger, the better’ culture in the 1990s. Under leadership of van der Hoeven (1993 – 2003), Ahold used an aggressive growth strategy to increase its business activities: find a clustering of a small number of firms with large losses. Between 1989 and 2003, Ahold acquired 97 companies and entered 26 countries for the first time. Business results were flourishing. Stock prices rose enormously in 1996 to unprecedented heights: on July 2nd, 2001 the stock price reached €31,57. The capital (liquidity) raised was used for financing mergers and acquisitions. Van der Hoeven succeeded to fulfil the objectives of the growth strategy – ensuring an annual 15% increase in earnings per share and doubling profits and sales every five years – until the beginning of the 21st century. At that time, real estate was still managed per country. Ahold's foreign subsidiaries remained active under their own flag, with their own

business approach and activities. When Kokkeel took over Ahold Vastgoed in 1996, the objectives of Ahold real estate changed: solely add value to the business. Ahold Vastgoed became fully supportive to the domestic growth strategy formulated by the business – before, Ahold Vastgoed adopted a strategic locational policy – which included (1) more efficient square meters (higher turnover/m²), (2) increase square meters (opening new supermarkets) and (3) take-over competitors (acquisitions and joint-ventures). The real estate strategies – the inner urban, the outer urban, the Vinex and the deprived area strategy – were fully stimulating the growth of the portfolio: opening new supermarkets and taking-over competitors. Ahold Vastgoed adopted a pro-active approach, further expanding the own development department. Van der Hoeven, in Kreijkes (2009): “Ahold does not want to wait for a developer or better market situations appear. We want to take the initiative ourselves in order to obtain locations which fit our strategy and organization. With that, it does not quite match to yield our real estate.” Real estate financing changed: ownership was no longer a requirement as long as the property was guaranteed for future years.

Ahold's growth came to a stop in 2001. Ahold suffered from low food prices and the competitive environment in the United States. With 60% of its activities in the American market, the economic downturn in the US directly hit Ahold sales numbers (Mulders 2001). Investors lost faith and the stock price fell in 2002. In its 2003 annual report, Ahold explained: “In some markets our business has been negatively affected by many factors, including high consumer debt and unemployment, resulting from the prolonged economic downturn in 2001, 2002 and 2003: high unemployment rates have depressed consumer purchasing power and declining confidence in the economy has caused customers to decrease spending and to shift buying habits” (Ahold 2003). The accounting irregularities (fraud) that came on top of the economic recession knocked Ahold down. Senior management, including van der Hoeven, resigned; earnings over 2001 and 2002 had to be restated. The Ahold stock index reached an all-time low on March 12, 2003: €2,09. Consumers lost faith in Ahold; this was also reflected in the competitive position of Albert Heijn in the Netherlands. Ahold's market share in the Netherlands drastically decreased with 5%, from 27% to 22% market share. Anders Moberg became CEO on May 5, 2003. Ahold put the international expansion strategy on ice and started to gain trust and market share with their ‘Road to Recovery’ strategy. The company divested all its operations in South America and Asia, retaining a core group of profitable companies in Europe and the United

States. Ahold started a price war in the Netherlands. During the crisis, Ahold was very clear about the real estate strategy. In their opinion, Ahold's real estate and locations were the most valuable aspects of the firm. No matter what happens, Ahold will keep its real estate: "We need our assets in order to keep growing in the future" (Kreijkes 2009). All real estate strategies remained active, although decision-making changed: the board had to be absolutely sure that Ahold would gain immediate profit out of a retail or real estate proposal in order to give approval. Although the consideration about real estate financing already changed in the mid 1990s, Ahold was now forced to sell real estate properties due to the liquidity problems originating from the crisis (Kromkamp 2013). The profit fall in 2003 and 2005 were accountable to the focus strategy and the price war; part of the 2004 and 2005 results were attributable to the continuing weakness of the U.S. dollar.



Figure 41: Net profit Ahold, 1993 – 2012

To some, the 2003 Ahold crisis is considered a blessing for Albert Heijn. According to Kromkamp (2013), the price conception among the people was completely wrong. Retail was the number one priority; all other services were downgraded to become solely facilitating to the banners (Janssen 2013). The crisis resulted in a turn-around: a shift from international growth to focus on performance. The price war drew customers back to its stores. In the fall of 2006, market share was back up again: 26,4%. The main objectives for the years 2003 to 2006 were market share, customer satisfaction and profit margin. Ahold Vastgoed fought an even harder battle for new locations, in order to increase market share:

it enlarged its own project development division, specialized in difficult and integral locations. In addition, it launched the convenience strategy (AH to GO) to increase customer satisfaction among the new target group: quick travellers. Compared to the period before the crisis, the strategy was more conservative: create more efficient square meters and increase the total amount of square meters.

The year 2006 was a turning point for Ahold in many ways. Having survived the crisis, Ahold reviewed its own business. Dick de Boer, who became CEO Ahold March 2011, explained that from 2006, 'our' focus would be on food retail, and on markets where we were – or could become – number one or two (Behrenbeck 2013). Ahold focused on restoring its brands, creating an improved product and service offering with a better price position (FNV Company Monitor 2010). Therefore, Ahold launched a company-wide cost reduction program at the end of 2006. Ahold switched to continental strategies and made a clear delineation between Ahold USA and Ahold Europe. Ahold moved its headquarters to Amsterdam in 2006 to disassociate from Albert Heijn. In 2007, Ahold had strengthened its business in the United States and Europe; the share price stabilized around €10. The profit boom in 2007 was fully accountable to the sales of U.S. Foodservice.

Ahold reorganized during the recovery phase and prepared itself for economic downturn in the future, such as the credit crunch in 2007. Ahold introduced the 'centers of excellence' in 2008: this transformation made it easy to facilitate new mergers and acquisitions according to the 'plug-and-play' principle. A new real estate department – 'Real Estate & Construction' (RE&C): a combination of exploiting and constructing – was introduced to centralize activities and increase efficiency. Business remained strong, even during the financial crisis. RE&C supported Ahold's profitable growth: it remained focused on its core business and strategic locations, and limited risks. RE&C searched for partners in developing inner urban locations and let non-core business properties (side-catches) to them. RE&C disposed all non-core real estate – side catches such as apartments and offices - as much as possible. The 'profitable growth' strategy has been very successful: business results in 2007 – 2010 were on pre-crisis (2001 – 2003) levels again and were (are) gradually improving. Ahold's cash problems thereby disappeared.

While the credit crunch flowed over into the Eurozone crisis in 2010, consumer behaviour has changed and the retail market has saturated: “The market share of large retailers is about 70% of the market and will not increase given the existence of small and specialist retailers; Albert Heijn’s market share in the Dutch retail chains market is 33% and can in the best case scenario only grow to about 40%; consumer spending will remain the same which means that new projects will cannibalize existing activities” (Kromkamp 2013). The retail market has become a relocating market. Before the credit crunch, the market was ruled by about 16 parties/chains; now there are 8 – 10 left. The retail landscape is becoming more aggressive.



Figure 42: Net sales revenues Ahold, 1993 – 2012

There is little opportunity to grow with the primary business: Ahold has to find other ways to flourish. Besides, Ahold – although not directly affected by the 2007 credit crunch – started to feel the indirect effects of the recession: the housing market was down, leaving little room for new outer urban locations; the vacancy level of the external retail portfolio – sub-rental contracts to other retailers – was increasing due to bankruptcies of lessees, although it is still only 2%. Under the leadership of Dick de Boer (CEO, March 2011), Ahold launched its six strategic pillars to accelerate growth within the following five years. Three pillars are designed to create growth (1, 2 and 3); three are designed to enable growth (4, 5 and 6). With the ‘wheel of retail’ concept, Ahold is running a strict 700 million euros cost-savings program from 2010 onwards. The business reacted to the changing market circumstances;

Ahold Real Estate & Construction followed. RE&C gives meaning to the pillars designed by the business by constructing a five-year real estate strategy and setting own goals and objectives annually. The biggest challenge for RE&C in these crisis years is to optimize the portfolio and deliver more qualitative square meters. In 2013, Ahold globally increased its portfolio (supermarkets and convenient stores) with 29 stores to a total of 3.103 (2.022 in the Netherlands). RE&C tries to ‘clean’ the portfolio by getting rid of side-catches in the portfolio. But, as Janssen emphasizes: only for the right price. RE&C especially contributes to the pillars that create growth: (1) increasing customer loyalty, (2) broadening the offering and (3) expanding geographic reach. RE&C for instance facilitates the establishment of pick-up points (PUP’s), in close and hybrid cooperation with business development, by analysing and selecting potential locations and partners. It is also increasingly active in the German and Belgium real estate market to facilitate international expansion. Ahold real estate is still fully committed to leasing, although the financial position has become more promising: lease contracts are fully sophisticated and provide contract rights that are comparable with ownership rights (Kromkamp 2013). Ahold has become more critical about their business cases. An acquisition is only done if it directly contributes to the banner. The growing market share and introduction of new concepts have kept up the business results during these crisis years.

Ahold challenged itself by planning to triple online sales to €1,5 billion by 2016; by planning to open a minimum of 150 of redesigned convenience stores in Europe and at least 50 supermarkets in Belgium; and by planning to continue to enlarge their geographic footprint in Europe and the United States by acquiring or opening stores in existing and adjacent markets (Ahold 2011). The disposal of ICU gave Ahold the firepower for deals in Belgium (Bartunek and Shanley 2013).

12.2 CREDIT CRUNCH

This paragraph looks into the effect of the credit crunch on the most important research elements: the corporate and the real estate strategy of Ahold. It handles the most relevant sub-questions in order to give answer to the main research question.

What is the impact of the credit crunch on the business results?

12.2.1 IMPACT MATRIX

The impact of the crisis on the Ahold business is determined by three factors: (1) dependence on economy: sector beta, (2) geography and (3) external financing. The Ahold impact matrix is shown in Figure 43.

12.2.1.1 Sector beta

Ahold's beta is low. Ahold sells products that are considered primary needs: this ensures consistent sales numbers. Along with most of the companies in the FMCG sector, Ahold has shown to be pretty much resilient to recession. Despite the retail environment has become tougher due to strong competition (price consciousness) and several sector developments have emerged over time (online shopping, private-label brands), Ahold has achieved relatively stable sales numbers in the past five years.

12.2.1.2 Geography

Geographically, Ahold is undiversified. After the reorganization in 2003, Ahold is represented in no more than two regions: the United States and Europe. Both Western economies; both hit by the financial crisis. Ahold suffered from the fall of personal disposable income in Western countries; Ahold is however not able to take advantage of the rise of income in emerging markets.

12.2.1.3 External financing

Ahold's financial situation has strongly fluctuated over the past decade. Liquidity in 2003 was at an all-time low. Currently, the financial position has strengthened and Ahold holds a substantial amount of cash on the bank (Janssen 2013). Ahold is able to finance most of its investments with its own resources, such as the acquisition and/or transformation of shops, without having to make use of external financing. This is reflected in its financial rating (Reuters 2013). Overall, its investments are not that big compared to, for instance, industrial corporations. Ahold therefor is relatively independent.

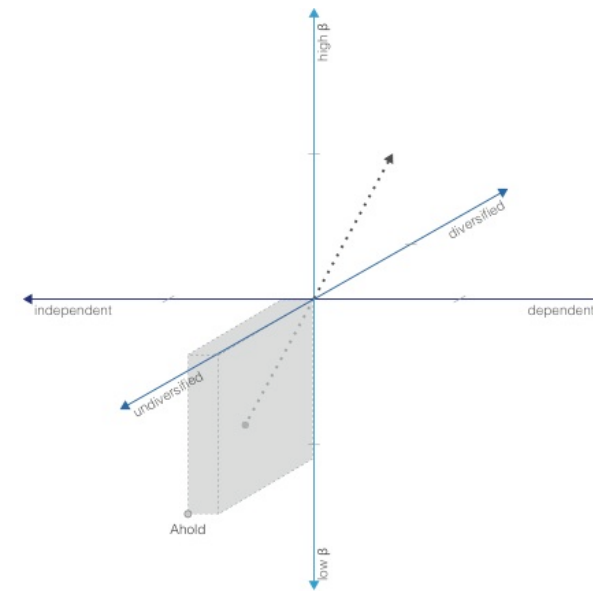


Figure 43: Credit crunch impact matrix, Ahold

How did the corporate strategy change, influenced by the credit crunch?

Ahold has experienced a turbulent corporate development. To illustrate this, it is essential to consider both crises (2001 – 2003 and 2008 – 2012) that Ahold has encountered in the past decade for the effects of the first crisis have had major influence on the second crisis.

The 2001 – 2003 crisis resulted in a turn-around: a shift from international growth to focus on performance. Ahold launched the 'Road to Recovery' strategy: regain trust and market share. Ahold reorganized, pressed costs and started the battle for the customer with the so-called price war. Ahold was able to change the customer perception and get market share back-up pre-crisis levels.

The recovery phase, which started in 2003, reorganized Ahold and prepared them for economic downturn in the future, such as the credit crunch in 2007. During the 'Profitable Growth' strategy, Ahold continued to steer for growth and innovation, strengthening its retail competitive position, particularly in the United States. Ahold focused on restoring its brands, creating an improved product and service offering with a better price position. Ahold simplified and restructured the organization in 2008 to create economies of scale and later introduced the 'Wheel of Retail' strategy: lowering the cost base in order to invest in lower prices, thereby increasing the revenues and investing the available capital in lower prices again. See Figure 44. Most retail chains tend to use this strategy during economic downturn.

All strategic decisions made from 2003 onwards were made to stimulate service delivery, marketing and cost management with the ultimate objective to become the number one retailer. The 2001 – 2003 crisis forced Ahold to go back to the core business of retail.

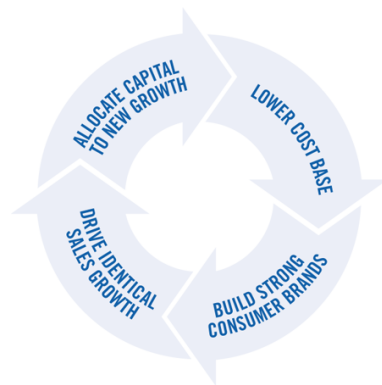


Figure 44: Ahold strategy: 'Wheel of Retail' (Ahold 2012)

Ahold has been able to grow and expand during the recent crisis years, whilst most other corporations were forced to reorganize. Ahold expanded its activities and services after 2010; it steered for growth again through new concepts and the entering of new markets. Ahold is focusing on a small selection of profitable locations. Customer loyalty is increasingly important during the financial crisis. Ahold even appointed a new chief commercial officer

(CCO) in charge of the pillar customer loyalty. Ahold has become more critical about their business cases: an acquisition is only done if it directly contributes to the banner.

What defines alignment between corporate and real estate strategy?

12.2.1 REAL ESTATE CLASSIFICATION

Real estate is of crucial importance to the Ahold business. All subsidiaries, except for Bol.com, are retail businesses that are in direct contact with the client: the greater part of the real estate portfolio serves the customer-contact purpose. Through real estate, the battle for the customer is fought: location, image and service of real estate have great influence on the business results. In addition, Ahold operates specialized shops, such as the PUP's, which are classified as specific real estate. The corporate real estate management department, Real Estate & Construction, has full responsibility over all portfolio classes.



Figure 45: Real estate classification Ahold

How did the corporation's real estate strategy change, influenced by the credit crunch?

Changing market developments have influenced corporate and real estate strategy. The activities are divided into (1) continuing operations: being the day-to-day activities and (2) new concepts.

12.2.1 CONTINUING OPERATIONS

The real estate strategy concerning continuing operations has not changed. The most important task for RE&C is to acquire and maintain strategic retail locations, like it has always been. The content and approach of the strategy did change. The market has saturated; growth is no longer possible with completely new locations. Most new projects will cannibalize existing activities: for expansion, Ahold RE&C focuses on the acquisition of franchises and portfolios of competitors. However, for RE&C optimizing the current portfolio has become equally important as Ahold's desire to expand the retail portfolio up to the (estimated) maximum of 1.200 stores (currently over 900). In consolidating and strengthening the current portfolio, RE&C (1) closes non-profitable shops; (2) deals actively with vacancy; (3) optimizes current shops through the development of more qualitative square meters; (4) keeps on innovating with new real estate (shopping) concepts – desired by the banners to react to consumer behaviour and competition – to remain profitable; and (5) stays alert and strategically protects important locations and assets – e.g. through acquisitions – for the market becomes more and more aggressive and vulnerable parties do anything within their power to survive (Kromkamp 2013).

The crisis has forced RE&C to take a more detailed look at the Ahold portfolio. Ahold acts not only as lessee, but also as lessor of objects that are part of a combined lease contract with multiple properties, including an Albert Heijn, Etos and/or Gall & Gall, obtained or rented from real estate investment funds like Corio. Due to mergers, acquisitions and bankruptcies – think of 'Schoenenreus' (January 2013) and 'Harens Smid' (July 2013) – several objects of the Ahold portfolio have become vacant. The crisis puts the Ahold real estate portfolio under pressure, although the current vacancy level is only 2%. RE&C tries to

'clean' the portfolio by getting rid of side-catches in the portfolio. But, as Janssen emphasizes: only for the right price. Janssen (2013) believes that it would be beneficial for all parties if these contracts could be split such that Ahold only has to lease the properties that it operates itself.

12.2.2 NEW CONCEPTS

Because of the retail market saturating, Ahold had to find new ways to realize growth. RE&C used to spend 90% of its time on the development of the Dutch Albert Heijn; this has decreased to 70% in the past two years, giving more priority to the foreign markets (Germany, Belgium) and new retail concepts. The new concepts support the six strategic business pillars that were adopted in 2011. RE&C especially contributes to the pillars that create growth: (1) increasing customer loyalty, (2) broadening the offering and (3) expanding geographic reach.

12.2.2.1 Customer loyalty

Customer loyalty is increasingly important during the financial crisis. RE&C contributes by providing comfortable retail space: inside and outside. Ahold even appointed a new chief commercial officer (CCO) in charge of the pillar customer loyalty. The focus on the relationship with society is however not new: it is a returning objective that was there already 10 years ago (Kromkamp 2013). At the same time, RE&C is part of the 'Wheel of Retail' strategy. RE&C cut costs in the own organization and is forced to be more critical about the furnishing costs (Dutch: '*afbouwkosten*'), which come into play every 9 years and are remarkably higher than the so-called 'stones' and rent (Kromkamp 2013).

12.2.2.2 Broadening the offering

Broadening the offering is very important since the growth opportunities in the current activities are limited. Supermarkets determine about 70% of the food market in the Netherlands and Albert Heijn is the biggest player already. Ahold diversifies by the initiation and exploitation of two new projects: (1) Bol.com: non-food business and (2) pick-up points (PUP): customer service. RE&C facilitates both projects. The acquisition of Bol.com in 2012 has immediately given Ahold a prominent position in the non-food business in the Netherlands and Belgium. Since the take-over, Bol.com has been constantly expanding its business. RE&C has integrated the Bol.com pick-up points in the current Albert Heijn retail

portfolio. The overall Bol.com organization has not been (fully) merged yet. Only a few supporting functions are centralized, such as HR (human resources) and IM (information management). Janssen (2013) explains: "Bol.com is very well organized: their infrastructure is efficiently up and running. The organization is already fully set to growth, among others working with shared-services and outsourcing." Eventually, all rental contracts are expected to be shifted to the Ahold RE&C department, including the headquarters and distribution centres.

In close and hybrid cooperation with business development (e-commerce), RE&C works to establish pick-up points (PUP's): pick-up points are regional (local) logistic desks to collect online ordered food. The PUP's are located in well-accessible and recognizable locations for quick access and exit. The PUP's are established in three ways: (1) store based (AH shops), (2) stand alone and (3) partner based (gas station, post office). Ahold tries to be the first to fully implement the PUP concept in the Netherlands. It is therefore involved on all government levels to make the concept work: Ahold encounters (again) a lot of fear concerning the position of the local entrepreneur; regulation lags behind current developments (Janssen 2013). The PUP concept should strengthen the position of *Albert*: Ahold's home delivery service. Albert is currently still a non-profitable (break-even) business unit, especially for the last delivery mile is too expensive. With the PUP concept, online food shopping should become more popular.

The integration of the PUP's in existing shops requires a lot of space; it doesn't fit all shops. RE&C is in charge of not only integrating the PUP's in existing location, but also finding locations and partners supporting the concept. Eventually, RE&C needs to close the deal. The availability of suitable locations determines the implementation time: RE&C and e-commerce needed only 9 months from initiation to first pilot project (Kromkamp 2013).

12.2.2.3 Expanding geographic reach

Expanding geographic reach is another growth opportunity: "Expansion to adjacent markets in order to create profitable growth is a logical step. However, consumer preferences differ so the store concept and assortment needs to be adjusted in order to meet local demands" (Janssen 2013). Ahold is trying to acquire a decent market share in the German and Belgium market. In Germany, Ahold is testing the AH To Go concept. In the – relatively

expensive – Belgium market, Ahold is actively introducing the regular Ahold (AH) concept since 2010 onwards: the business is performing promising. Janssen (2013): "The Belgium consumer appreciates the fact that we deliver full service supermarkets, including pre-packaged and fresh products, with lower prices than other Belgian full service supermarkets." Besides, the Belgium authorities are open to new market players: they are flexible and willing to help. Ahold already opened over 50 stores in Belgium.

The foreign expansion entails a lot of additional organizational operations: product packaging has to be translated and changed, financial constructions have to be developed (think of taxed and customs) and the IT infrastructure has to be installed. For RE&C, there is one main task: facilitating the opening of new retail stores. First, RE&C had to map the market through knowledge gathering by (1) understanding the Belgium real estate market; (2) making an inventory of the Belgium society, including an analysis of income groups; and (3) mapping profitable locations. RE&C is in charge of finding, selecting and negotiating new shops.

12.2.3 MERGER REAL ESTATE ORGANIZATION

In 2008, Albert Heijn Arena was set aside and Ahold introduced the Ahold Real Estate & Construction (RE&C) department. RE&C is one of Ahold's 'centers of excellence' – others are for instance finance, human resources and sourcing – a new organizational structure designed to support future growth: "Through this plug-and-play method, newly acquired businesses can be directly added to, and supported by, the current organizational structure" (Janssen 2013). This increases efficiency (knowledge sharing) and reduces costs through economies of scale, in line with the wheel of retail strategy.

Today, RE&C is still operational. RE&C combines the disciplines Real Estate: acquiring and exploiting stores, and Construction: former store development. In contrast to previous real estate departments, RE&C combines '*ruwbouw*' and '*afbouw*'. The disciplines are currently divided into (1) plan: locational strategy and acquisition (contracts), (2) realize: construction and (3) operate: exploitation (Janssen 2013). There are still about 100 people working for RE&C, although their activities have become more intense and diversified: the same amount of people do more work (Kromkamp 2013).

The working method is still the same: for every decision regarding real estate, RE&C constructs a long-term business case. RE&C regards (1) development costs, (2) operational costs, (3) rental fee, (4) turn-over, (5) profit margin, (6) cannibalism (turnover decrease of other AH shops by introducing a new shop) and (7) real estate. RE&C is held accountable for its operations through the CFO, who reports in the European Management Board (Kromkamp 2013).

12.2.4 FINANCING LEASING

The cash problems that were the result of the 2001 – 2003 crisis are no longer there. Ahold holds over 3 billion euros on the bank; it has a strong financial flexibility, reflected in high liquidity reserves and cash conversion ratio as well as low leverage (Reuters 2013). Decisions are thus not driven by necessity. Ahold prefers to lease: "We only buy if that is the only possibility to get possession of an important new location. This is only done if this is in the best interest of the banner" (Janssen 2013). Kromkamp explains Ahold solely focuses on the retail activities and is not (anymore) looking for speculative investments in stones. Nowadays, lease contracts are fully sophisticated and provide contract rights that are comparable with ownership rights (Kromkamp 2013). Besides, financial regulations have made financial ownership benefits disappear over the years. Now and then, ownership might still result from acquisitions and/or the strategic protection of vulnerable lease contracts by buying the property. The latter has become more important with the increasingly (aggressive) competitive market, strengthened by the economic malaise. A purchased object should not include too much other properties – the so-called side-catch – which might increase risk and decrease future profitability.

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The effect of the credit crunch on the real estate strategy and real estate activities of Ahold is minimal. The influence of the credit crunch is primarily indirect.

The 2001 – 2003 crisis created the awareness that Ahold had to change track. The corporate strategy changed to a focus on client and performance. Ahold emphasized on service, marketing and costs. Real estate was fully supporting by pro-active location management. This pro-active attitude has increased due to the credit crunch, being not only supportive, but adding value due to the initiation and execution of multiple new concepts.

Before, during and after the crisis, the objective has always been to create shareholder value through (1) growth and (2) return on capital. For the corporate strategy and real estate strategy of Ahold are fully aligned, all consequences of the credit crunch on the business have impacted real estate as well. This is reflected in the cost reductions on furnishing following the 'Wheel of Retail' strategy to lower food prices; in the conservative decision-making process; and in the risk avoiding attitude towards the (external) real estate portfolio, i.e. the so-called 'side-catches'. All implementations are shown in Table 14.

Theme	Impact credit crunch
Organization	Prepare for growth with 'plug-and-play'. Introduction 'centers of excellence'.
	Centralizing organization: headquarters Amsterdam closed and merged.
	Merger real estate organization: Real Estate & Construction (RE&C).
Strategy	'Wheel of retail': invest in growth.
	Optimization current stones. Deliver more qualitative square meters retail.
	Dispose non-core real estate.
Innovation	Lead and/or assist in foreign activities (Belgium and Germany) and non-food activities (Bol.com and PUP).

Table 14: Real estate implementations Ahold

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13 UNILEVER

Unilever was founded in 1929 after a merger between the Dutch firm Margarine Unie and the British firm Lever Brothers. Unilever is a top maker of packaged consumer goods worldwide. Its products include foods, beverages, cleaning agents and personal care products. Unilever owns over 400 brands, with 25 of its largest brands accounting for over 70% of total sales.

Unilever Real Estate was unable to cooperate in this study.



14

AKZO NOBEL

AkzoNobel is a large Dutch chemical company. AkzoNobel did not reach its current company size by organic growth, but through mergers and acquisitions (Weyzig and Schipper 2004). Akzo was formed by the merge of the Dutch companies AKU (*'Algemene Kunstzijde Unie'*) and KZO (*'Koninklijk Zout Organon'*) in the early seventies. The current name is the result of the merge between Dutch AKZO N.V. and Swedish Nobel industries A.B in 1994. Today, AkzoNobel – headquartered in Amsterdam, the Netherlands – is a market-driven and technology-based company, serving customers throughout the world within three sectors: decorative paints, performance coatings and specialty chemicals (Kreijkes 2009).

The real estate management case study within AkzoNobel is performed through an interview with Roland Huitink, Director AkzoNobel Real Estate. Former real estate strategies are primarily based on research of Krumm (1999) and Kreijkes (2009). Other sources include, among others, corporate real estate management literature and company statements.

14.1 CASE STUDY

AkzoNobel business results (sales figures) are heavily dependent on the local economic situation. AkzoNobel has always adjusted its business and use of real estate to the market circumstances. There is no alignment between corporate and real estate strategy; AkzoNobel enables a re-active approach. Real estate is just a resource or precondition to produce (Kreijkes 2009). Until recently, AkzoNobel did not operate a real estate department: "It is only until something big goes wrong, that you need something; the Management Board just never had a reason to establish a real estate department" (Huitink 2013). The initiation of the Global Real Estate department in 2010 should ensure alignment of business and real estate practices in the near future.

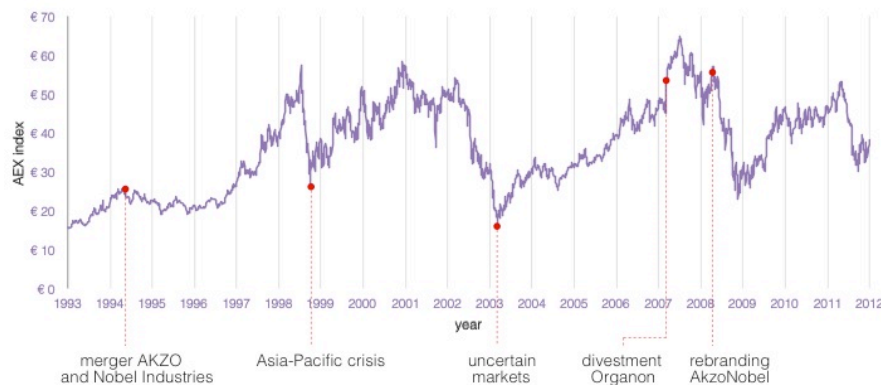


Figure 46: AEX index AkzoNobel, 1993 – 2012

After the merger between Akzo and Nobel Industries in 1994, AkzoNobel became part of the 'the bigger, the better' culture of the 1990s (Willems 2013). CEO van Lede stated in 1996: "There is no need to adjust Akzo Nobel's strategy: leadership, profitability, critical mass. We know where we are going." Sales numbers increased following the acquisitions: the stock price hit highs after the acquisition of Courtaulds in 1998, instantly providing an entry to China and making AkzoNobel a global leader in coatings. The growth stagnated shortly after due to the Asia Pacific crisis. The change was primarily caused by the indirect impact of the Asian crisis, which finally fed through the international trading system and began to make it

felt in AkzoNobel's traditional markets. Meanwhile, responsibility and authority was decentralized to those in the proper place to take right and quick decisions, and implement these decisions in a rapidly changing market place (Kreijkes 2009). This applied to real estate as well: real estate objects were the responsibility of the applicable location manager. There were no formal company wide guidelines. Real estate should best fit the business activities: who else was better in charge of this than the business manager himself.

After 2003, business was under pressure again. CEO Weijers in 2003: "Uncertain times ask for conservative financing. We are very selective in making investment choices, in order to use funds for what is really necessary to protect the vitality of this company. The priority now is an efficient and lean organization" (AkzoNobel 2003). Real estate was still managed locally, but the 'Corporate Directives' – launched in 2001 – laid the financial ground rules for portfolio management. Financial considerations outweighed long-term strategy. This was done by AkzoNobel to ensure an efficient portfolio and minimize costs. Other aspects within the real estate management discipline were organized ad-hoc, rather than deliberate (Kreijkes 2009). Real estate decisions did not support the organizational performances.

Although there was no uniform policy until the 21st century, the attitude towards real estate financing has barely changed according to Huitink (2013): "Strategic real estate is in ownership; whatever you don't directly need is rented. About 95% of the portfolio already complied with this guideline before my arrival" (Huitink 2013). In general, this means AkzoNobel owns the production plants and rents offices, stores, warehouses and logistic property. R&D property is a different consideration, depending on the investments made and the exploitation time. The financial crisis did not influence the ratio. There was explicitly no drive to strive for sale-and-leaseback: "Sale-and-leaseback is only interesting for the short term liquidity, but it is still cheaper to borrow money from the bank" (Huitink 2013).



Figure 47: Net profit AkzoNobel, 1993 – 2012

The 2007 financial crisis hit AkzoNobel hard in the European and American markets. The crisis led to a slowdown in high growth regions that had previously been more resistant to the economic crisis. AkzoNobel raised €10 billion with the sales of Pharma: AkzoNobel invested the money in their core business activities (coatings and chemicals) and acquired the British company Imperial Chemical Industries PLC (ICI) in 2007. The acquisition of ICI during prosperous times turned out to be incautious (Willems 2013). Although emerging markets made up for the losses, AkzoNobel has been restructuring business ever since: AkzoNobel was forced to dispose several business divisions. Akzo Nobel rebranded the company to 'AkzoNobel' in 2008 and introduced a new company logo and statements. In 2009, AkzoNobel's activities could be divided into three business units: the business units have large freedom to act within the strategic frame of the company; the management board has to (unanimously) approve for major changes and decisions. Under influence of the Eurozone crisis, AkzoNobel launched a performance improvement program in October 2011 to strengthen its competitiveness, enhance its ability to grow, simplify its support structures and reduce its cost base (AkzoNobel 2011). The three-year plan is designed to improve the company's performance and deliver €500 million EBITDA.

In the meantime, the Management Board appointed a Real Estate Director (Huitink) to reduce costs in 2010. The board acknowledged that the lack of a coherent structured approach to real estate has led to missing opportunities and the creation of potential

liabilities. The department is asked to align with the business, identify key stakeholders and focus on short-term quick wins.

With the installation of the real estate department, AkzoNobel hoped to increase liquidity by quick wins on the real estate portfolio through (1) renegotiation of contracts and (2) sale of (unused) portfolio objects. The state of affairs of the real estate market did not influence (delay) this approach: unused property and land is directly sold for market conform prices. GRE has been able to raise enormous amounts of money in the first two years. There are currently numerous objects on the list to be sold. Huitink expects to raise more savings through quick wins in the coming years. For non-core real estate objects, such as offices, AkzoNobel requires flexibility: lease contracts.



Figure 48: Employees total AkzoNobel, 1993 – 2012

Meanwhile, the focus changed. Europe's total market share nearly halved in the past twenty years, from 36% in 1991 to 20% (642 billion euros) in 2011. In 2012, AkzoNobel launched the successive strategy: 'Leading market positions delivering leading performance' (Figure 49), aimed at delivering performance by building on the leading market positions in paints, coatings and specialty chemicals. The continuing decline in consumer confidence and in housing markets worldwide had a negative impact on all businesses (Akzo Nobel 2012). AkzoNobel divested the North American Decorative Paints activities to PPG Industries, Inc. Focus returned on key markets in Europe, and on building the strong existing positions in

high growth regions (Akzo Nobel 2012). Huitink was able to focus more on real estate operations as well: GRE is working on the governance and implementing new ways of working – with Amsterdam as leading example – to reduce office costs. Therefore, Huitink has to create awareness in the, relatively conservative, company.



Figure 49: AkzoNobel 'Leading market positions' strategy

14.2 CREDIT CRUNCH

This paragraph looks into the effect of the credit crunch on the most important research elements: the corporate and the real estate strategy of AkzoNobel. It handles the most relevant sub-questions in order to give answer to the main research question.

What is the impact of the credit crunch on the business results?

14.2.1 IMPACT MATRIX

The impact of the crisis on the AkzoNobel business is determined by three factors: (1) dependence on economy: sector beta, (2) geography and (3) external financing. The AkzoNobel impact matrix is shown in Figure 50.

14.2.1.1 Sector beta

AkzoNobel's beta is high. Its products are mainly sold to other industries that all experience the effects of declined consumer expenditure, such as the automobile industry. The dependence of AkzoNobel on the macro-economic environment is clearly shown in the aftermath of the 2001, 2007 and 2011 crises. Jeremy Rowe, AkzoNobel's managing director for decorative paints for Southeast Asia and the Pacific, explains: "We tend to experience slightly sharper slowdowns and rises when GDP changes. The important thing for us in terms of long-term market growth is that even if there is a short-term break – such in 2009 and 1999 – fundamentally, you know it's going to rise again" (Suratman 2012).

14.2.1.2 Geography

AkzoNobel's business is strongly diversified. AkzoNobel has resources in all regions. Although the activities in emerging markets are increasing, AkzoNobel is still strongly dependent on Europe: "About 40% of our business is generated from fast-growing markets now, which includes Asia, Latin America as well as parts of Eastern Europe and this will grow to more than 50% in a few years' time for sure" (Suratman 2012).

14.2.1.3 External financing

AkzoNobel's position towards external financing is dependent. Investments in the chemical industry are of enormous size. In recent years, AkzoNobel has always chosen to first create liquidity before investing. CEO Hans Weijers (2003): "There are always a lot of interesting acquisitions possible to invest in further growth, but Akzo Nobel's credit rating has a high priority. A logical consequence is that we will divest first, before we invest in new growth opportunities" (AkzoNobel 2003).

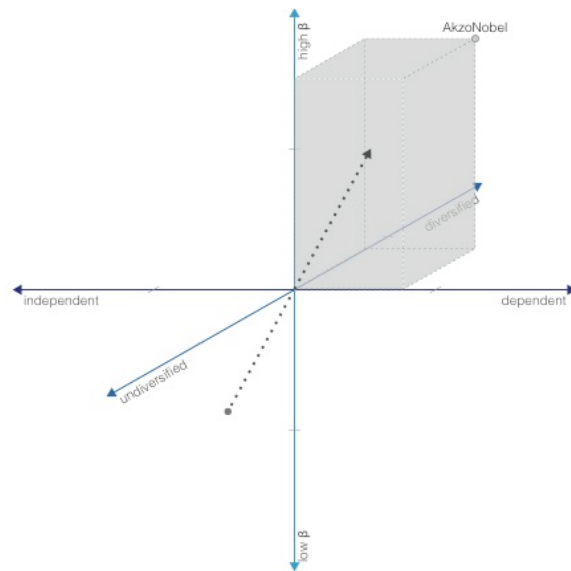


Figure 50: Credit crunch impact matrix, AkzoNobel

How did the corporation's corporate strategy change, influenced by the credit crunch?

AkzoNobel is a context driven organization: different social- and macro-economic developments have had major influence on the AkzoNobel business. The corporate strategy preceding the credit crunch was already initiated in the after-math of the Asia Pacific crisis in the 1990s. The strategy: 'More Dynamic Growth' focused on long-term value creation. Capital allocation focused on building sustainable leading business positions: attractive growth, returns above costs of capital, and substantial operational cash flows. AkzoNobel actively restructured and divested activities that did not meet these criteria (Akzo Nobel N.V. 2003).

Just when things started to brighten up, the credit crunch increased the need to converge business. With the strategy 'Tomorrow's Answers Today', AkzoNobel went back to core business: paints, coatings and chemicals. AkzoNobel launched a performance improvement program to strengthen competitiveness, enhance its ability to grow, simplify support structures and reduce the cost base (AkzoNobel 2011). The goal: improve the company's performance and deliver €500 million EBITDA. This meant disposing unprofitable operations. AkzoNobel has tried to be flexible and react to changing market circumstances, also by regional diversification.

What defines alignment between corporate and real estate strategy?

14.2.1 REAL ESTATE CLASSIFICATION

AkzoNobel holds production plants and research and development (R&D) facilities, and rents offices, warehouses and logistic property. About 80% of the portfolio is dedicated to production plants; the other 20% to R&D and offices. Many of the locations in the Netherlands feature a mix of these three types of real estate. Only in a few countries, AkzoNobel operates consumer stores. The real estate portfolio is fully dedicated to the production process.

The production plants are all about the engineering facilities. It is not the image, but the location that is of great importance to the production process: location determines import and export routes, logistics and knowledge workers (Huitink 2013). The location is leading and is determined by the business unit. Real estate itself is not of primary importance to the business model. This means that the real estate strategy is not necessarily linked to the corporate strategy.

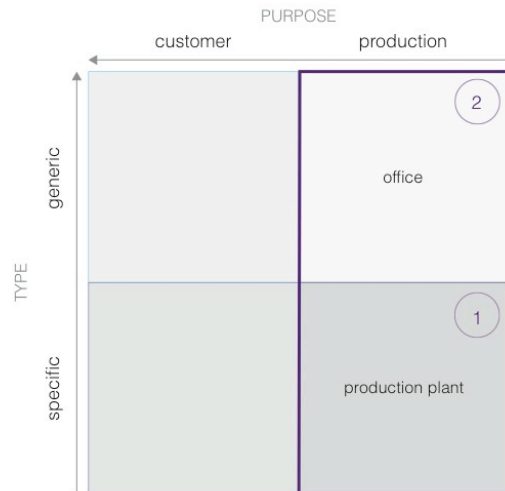


Figure 51: Real estate classification AkzoNobel

How did the corporation's real estate strategy change, influenced by the credit crunch?

It is not the real estate strategy that is aligned with the business, but the real estate implementations. Huitink argues it is neither possible nor necessary to fully complement to the business strategy: a contribution can only be made on specific issues of the policy such as sustainability and the EBITDA. The main objective in these crisis years was to contribute to the improvement of company's financial performance and deliver €500 million EBITDA. And there are still a lot of low-hanging fruits: millions can be saved on daily real estate activities.

14.2.2 ORGANIZATION

With a memo in April 2010, the AkzoNobel Management Board announced the alignment of real estate practices with business objectives. Roland Huitink is appointed Director Real

Estate on April 1. Huitink is asked to align with the business, identify key stakeholders and focus on short-term quick wins. Shortly after, two real estate managers are appointed: Dennis Decamp (USA) and Hans Cijis (the Netherlands). The team plans to develop a real estate policy (incl. governance), to structure relationships with external advisors and include facility management in the central real estate activities. Several persons in different countries, in different functions, support the team.

The team defined the following scope: (1) achieve the optimal footprint for AkzoNobel in order to support the business units in achieving their goals; (2) effectively managing non-core services related to maintaining the optimal footprint; and (3) be recognized as the 'Trusted Real Estate Partner' for all BU's globally. The responsibilities of the Global Real Estate department are: (1) translating business unit needs into real estate requirements, (2) managing contracts of the portfolio and (3) designing governance: developing directives for the purchase and sale of property. In the ideal situation, GRE would be able to address cross business unit opportunities, identify key development opportunities and secure optimal value for AkzoNobel (Kreijkes 2009). The procedures – e.g. sales procedure and office standard – are designed and the portfolio is efficiently managed; full alignment with the business however is a task for the future.

14.2.3 ACTIVITIES

The first years were dominated by providing structure and gaining quick wins. Huitink (2013): "I first need to bring the organization to a certain level; from there on we take the next step: what is the company up to and how can we support them?" (Huitink 2013).

14.2.3.1 Supply and demand

The primary activity of GRE is to balance real estate supply and demand: make the portfolio more efficient. Huitink (2013) argues the real estate management practice is as simple as closing deals. The discussion between supply and demand is followed by one or more transactions, shown in Figure 52. This strategy is re-active. Huitink explains: "We will never be pro-active regarding production plants: there are other people better capable of determining how many – and what size – factories there should be" (Huitink 2013). The individual BU's make this consideration themselves. GRE will react if the BU decides to buy or sell. Concerning offices, GRE is (becoming) pro-active: "We determine the sales strategy;

we map the acquisition process and provide office standards" (Huitink 2013). The local person in charge acts on the basis of these documents.

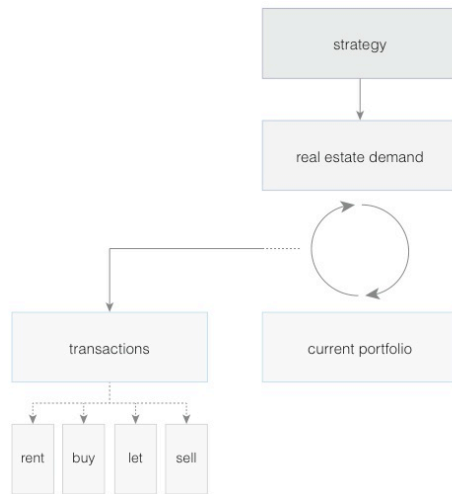


Figure 52: Real Estate Management AkzoNobel (Huitink 2013)

14.2.3.2 Quick wins

With the installation of the real estate department in 2010, AkzoNobel hoped to increase liquidity through quick wins on the real estate portfolio. Quick wins are realized in two ways: (1) renegotiation of contracts and (2) sale of (unused) portfolio objects. Rental contracts are now reviewed half a year before the expiration date (Huitink 2012). The real estate market was downsizing and with a little bit of effort and knowledge, rental prices could be easily lowered. The disposal of unused portfolio has become more important during the financial crisis. It's all about creating liquidity. There are currently over 100 objects on the list to be sold: "It is a mix of long-standing objects and recently closed production plants." Huitink (2013) explains: "We are not real estate investors: we're not going to hold on to the land to hope for high(er) returns in the future. We have an 8% rate of return on production: this business is more secure than the value of the land." The approach is therefor simple: unused property and land is sold for market conform prices. If the market price at that point in time is unfavourable, the property and land are still being sold: managing the objects cost

time and money as well. There are only very few exceptions to this rule. If an object cannot be sold, there are two ways of dealing with it: (1) outsourcing object management or (2) putting a fence around it and leave it there, as long as it causes no environmental damage.

Sale-and-leaseback in itself is no goal. According to Huitink, "Sale-and-leaseback is only interesting for the short term liquidity, but it is still cheaper to borrow money from the bank" (Huitink 2013). Huitink (2013) argues that production plants cannot be easily taken off-balance: "The investor (buyer) knows that in most cases, only AkzoNobel can make use of the production plant and will therefor not easily find another tenant once we leave. The result: the negotiated sales sum has to be fully amortized over our rental period." In addition, AkzoNobel does not want competitors to take over their production plants. Exceptionally, the formal headquarters in Arnhem (70.000m²) has been sold using a sale-and-leaseback construction.

14.2.3.3 New ways of working

GRE is implementing new ways of working to reduce office costs, although it raised a lot of resistance. The construction of the headquarters in Amsterdam has accelerated the process: "Now we have finally set the standard in the Amsterdam headquarters, we can unroll our plans in other global offices as well." There is no more ground for protest according to Huitink: Amsterdam will be leading. Square meters per person are drastically reduced. In recently acquired offices, like Dubai and Delhi, the concept has already been introduced. If Human Resources is on board, more will quickly follow as long as it is also financially profitable for the organization. In the end, it is all about employee satisfaction.

14.2.3.4 Governance

In the meantime, GRE is working on the governance. Transactions and activities have to be organized according to these regulations. This is checked by both GRE and the Management Board. The next step in the strategy process is to incorporate asset and facility management into the real estate management department discipline and responsibilities. The next product is providing a governance structure for the quality of the portfolio.

14.2.3.5 Headquarters

The decision for the build of a new headquarters was made in 2006, just before the start of the financial crisis. An office with of 15.000 m² is developed on the Amsterdam South-axis.

The reasons for the move are: (1) upgrading the corporate image and (2) close to the airport and the capital city, in the heart of the Dutch centre. Before one brick had been laid, the president of the AkzoNobel Management Board decided to postpone the construction: disappointing financial results in 2008 and 2009, the direct result of the financial crisis, forced them to prioritize. Five years have past before the partnership finally started building in 2013. In the meantime, ING Real Estate suffered severe losses: the German investor Union Investment bought the headquarters in March 2013 for 80 million euros (PropertyNL 2013). The initial developer has also been taken off the job: Dura Vermeer Real Estate is now responsible for successfully completing the construction.

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The effect of the credit crunch on the real estate strategy and real estate activities of AkzoNobel is big. The influence of the credit crunch is direct.

The economic downturn following the credit crunch increased the need for cost savings. At the same time, the corporation disposed unprofitable operations. Once the financial added value of corporate real estate management was noticed, the real estate department was launched in 2010: a direct result of the crisis. The real estate department has analysed the portfolio and created liquidity by disposing unused property, renegotiating rental contracts and implementing efficiency measures. All implementations are shown in Table 15.

Theme	Impact credit crunch
Organization	Foundation Global Real Estate department.
	Create awareness in Management.
	Create governance on corporate level.
Strategy	Renegotiation lease contracts.
	Dispose (unused) portfolio objects, despite market conditions.
	Introduction new working concepts.

Table 15: Real Estate Implementations AkzoNobel

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15 SHELL

Royal Dutch Shell is the merger of '*De Koninklijke Nederlandse Petroleum Maatschappij*' and '*Shell Transport*'. Royal Dutch Shell is involved in oil and gas exploration and production. Royal-Dutch and Shell merged all of their operations in 1907. Despite merging their interests, the companies remained separate. Shell operates almost in all parts of the globe.

The real estate management case study within Shell is performed through an interview with Mike Napier, Executive Vice-President Shell Real Estate. Former real estate strategies are primarily based on research of Krumm (1999), Diephuis (2009), Kouwenberg (2012) and Plijter (2012). Other sources include, among others, research of Kreijkes (2009), corporate real estate management literature and company statements.

15.1 CASE STUDY

Shell is the biggest player and thereby determinative in the AEX index – although the size and timing of the stock index development is not aligned. The strong central functions and services have been an important component in Shell's success. Shell's understanding of value creation emphasises the importance of being able to transfer technical and functional expertise around the world and of being able to support good local investment (Krumm 1999).



Figure 53: AEX index Shell, 1993 – 2012

Shell has a very stable corporate history. Strategy is formulated for the long-term, up to 30 – 40 years. The global demand for oil has been growing year-on-year following the developing nature of industries. The business results show that the economic conjuncture has minor influence on the corporation's financial performance. More important are social and political trends and activities: oil prices are dependent on the political-economic situation in production regions. Price movements determine revenues (Pirog 2012). With consistent sales numbers – Shell's net profit is largely dependent on the actual crude oil price: "The oil industry tends to become highly profitable when the price of crude oil rises. Since increases in the world price of oil tend to reflect general economic conditions, political developments, and the emergence of new markets, the increases in company profitability can be viewed as windfall gains" (Pirog 2012). The development of the net profit and the crude oil price within the twenty-year timeframe is identical.

The year 1995 was a traumatic year for Shell. Shell's reputation was harmed when Greenpeace activists occupied the Brent Spar oil platform in April, which had come to the end of its working life and was due to be dumped at sea. Later that year, Shell's commitment to free thinking was questioned when Nigerian writer Ken Saro-Wiwa and eight other Ogoni were hanged by the Nigerian authorities for speaking out against the environmental damage to the Niger Delta caused by Shell Oil. Due to these and other events that took place in the mid-1990s, Shell management had to take several steps to improve its record and reputation. Shell established ambitious goals for its new strategy (Tangen 2003). Sustainable development became the centre of all Shell processes, as illustrated by Mark Moody-Stuart, Chairman of the Committee of Managing Directors, in the 2000 annual report: "My colleagues and I are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people" (Royal Dutch / Shell Group 2000). At that time, all operating responsibilities within the Royal Dutch/Shell Group were decentralized to the operating companies (thousands worldwide); real estate property needs were still managed by each individual business unit. Shell did operate the Shell Pension Fund, a completely separate entity, which for a long time invested in direct ownership of real estate properties around the world. In 1994, Shell made the decision to move from direct ownership to investing in property funds. All real estate property professionals were let go and Shell Pension Fund gradually sold the build-up empire between 1994 and 2003 (Napier 2013).

Shell's growth halted in 1997. Oil prices fell during the Asia Pacific crisis in 1998. The disappointing financial results and bad publicity resulted in a rethinking of the role of the corporate headquarters in the 1990s: the new corporate structure was set up for less bureaucracy, less duplication, more individual responsibility, more pay for performance and much more openness, both internal and external (Krumm 1999). Parallel to reductions in corporate staff, the number of corporate headquarters buildings was also drastically reduced (Krumm 1999). Until then, Shell real estate practices were never centrally coordinated, neither professionally managed. People who were lawyers, procurement or financial professionals were going out and negotiating leases (Napier 2013). The various operating companies accommodated in The Hague and London were facilitated by the 'Office Directorate', which provided all services including accommodation (Krumm 1999).

That changed in 2000, when Shell Real Estate was initiated: a global, central real estate department in charge of the entire portfolio occupied by Shell.

Shell faced an employee increase in 2002 due to acquisition of the American Pennzoil-Quaker State (March 2002) and the British Enterprise Oil (April 2002). In 2003, Shell employed 120.000 people, compared to 85.000 in 2000. From 2003 onwards, oil prices went through the roof. This was caused by a combination of three factors: (1) the economic recovery increased activities, thus demand for oil; (2) oil drilling became tougher – drilling deeper and further off-shore – thus supply more difficult and limited; and (3) the interference of the OPEC (Organization of the Petroleum Exporting Countries) and especially Saudi Arabia – possessing 18 per cent of the world's petroleum reserves – who steered for high oil prices to cover up major governmental expenses (Willems 2013). The Shell accounting fraud in 2004 however affected the stock price for a longer period: Shell admitted to have overstated its oil reserves by about 20 per cent (3,9 billion barrels). In April 2004, the Group restated its Financial Statements (Shell International B.V. 2004). The stock price fluctuated around 20 euros for almost two years. Meanwhile, Shell Real Estate got a lot smarter looking after their needs. They made sure qualified people would negotiate on property deals. Real estate became a supporting function by trying to deliver the best portfolio, workplace and travel solutions to Shell and its employees (Diephuis 2009).

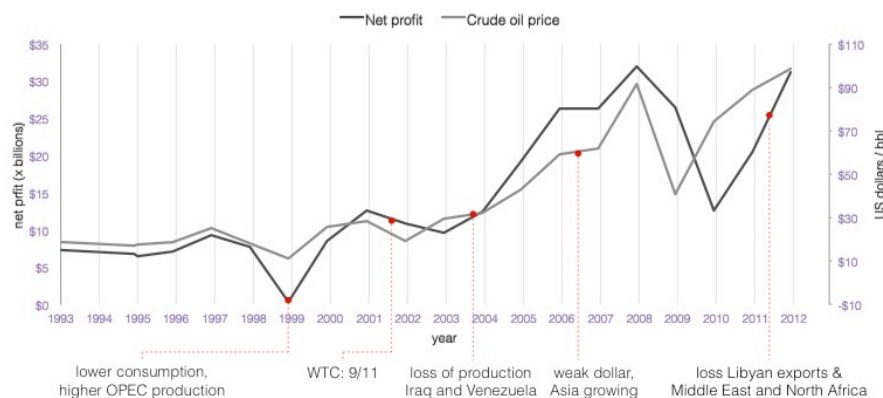


Figure 54: Net profit vs. crude oil price Shell, 1993 – 2012

In 2005, the Group underwent a major structural reorganization as the partnership between Royal Dutch and Shell Transport and Trading was dissolved and one company was created: Royal Dutch Shell. This provided a clearer and simpler structure with a single smaller board and a simplified senior management structure. The Boards appointed Jeroen van der Veer as the Group's first Chief Executive. Efficiencies were achieved by reducing duplication and centralizing functions in one headquarters in The Hague (Shell International B.V. 2004). The strategy introduced for the following five years was: 'More upstream, profitable downstream'. As the strategy implies, Shell is broadly split in two types of business: (1) upstream: searching for and recovering crude oil and natural gas and (2) downstream: processing crude oil and gas and taking it to the market. The upstream business is capital intensive and highly cash generative for it has high margins; it is impervious to changes in the market demand. The consumer and business market define the downstream business. According to the 2004 annual report, 'more upstream' means improving performance in finding and producing oil, and especially natural gas. 'Profitable downstream' means running facilities better, investing in fast growing markets like China and other parts of Asia, and selling off activities with lower returns or limited growth potential (Shell International B.V. 2004). On the way, real estate has gradually become part of all activities. Shell Real Estate greatly expanded over the years as it has taken on more and more responsibilities. That has been simply through the maturing of the real estate organization, rather than any business change or market-driven change: "After offices we moved into industrial plants, land, surplus land; now we manage everything from schools and hospitals in remote places to our residential portfolio" (Napier 2013).

The 2008 credit crunch affected many aspects of the Shell business environment. It impacted Shell's partners, customers and suppliers. Chairman Jorma Ollila: "As Shell, we depend on making the right long-term investments against a range of business assumptions. Such market volatility tests our resolve – and our strategy" (Shell 2008). Especially Shell's downstream businesses of oil products and chemicals experienced a particularly tough period due to a drop in demand: "We're in the premium end of the market: during crisis people go for cheaper petrol, cheaper oil and greases" (Napier 2013). The low margins make the downstream business strongly focused on costs: more than ever. Interestingly, the downstream business is more people intensive: about 60% of the offices are dedicated to downstream business. Shell dropped the cost base, went through

restructuring programs and made decisions to stop certain activities. The consequences were downsizing in headcount in 2009, from 108.000 to 92.000 staff, and therefor a reduction in the need for demand for real estate space. The strong cost focus was represented in the real estate activities as well. Already in 2008, Shell had introduced the concept 'Shell Works'. Shell Works is part of the mandatory standard that imposes a standard office design. With Shell Works, Shell wants to offer a specific recognizable high standard to its employees. At the basis lies the Employee Value Proposition (2005) (Diephuis 2009). Shell Real Estate makes use of external benchmarking to remain competitive. The broad performance metric is the costs per person accommodated per year.

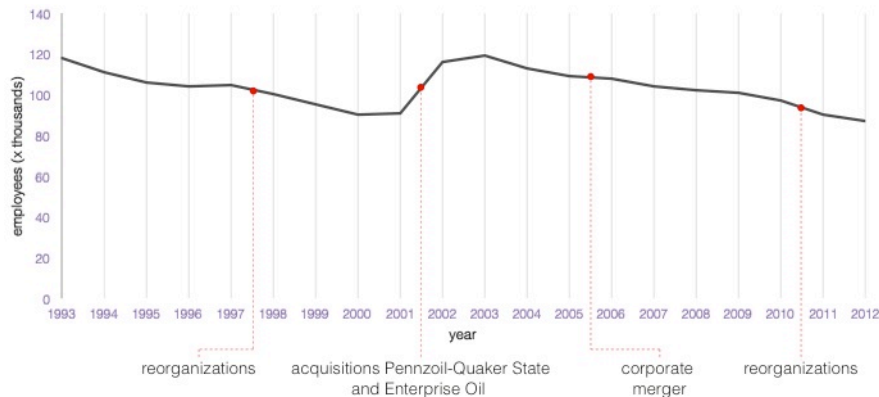


Figure 55: Employees total Shell, 1993 – 2012

Shell continued its strategy 'More upstream, profitable downstream' in 2009, and beyond. The global long-term challenge for Shell remains how to produce more energy and less CO₂. Technology remains central to Shell's efforts to produce more oil and gas and to turn them into everyday products. In the Asia Pacific and the Middle East its sights were set on growth: a joint share in the \$4,3 billion complex at Daya Bay in Southeast China provided Shell a major financial stake in the Chinese market. Shell continued to manage its exposures as well as costs carefully while maintaining its long-term strategy. Shell believes that when the economic crisis passes, global demand for energy will continue upward as populations grow and living standards rise; and supplies of easy-to-access oil will struggle to keep pace with demand (Shell 2008). The company's spending on research and development has

therefor increased, even during crisis years, as it developed new technologies to unlock difficult resources. Shell's strategy after the crisis reads: "Our strategy seeks to reinforce our position as a leader in the oil and gas industry, while helping to meet global energy demand in a responsible way." The real estate strategy is focused on right-sizing the Shell footprint: making sure to have the right size portfolio in the right places to meet the needs of the business. The needs of the business include attracting and retaining talent, as well as making sure that it is cost-effective. Affordability is key, whilst maintaining the thresholds for quality, cleaning, catering etcetera. Shell Works has therefor been succeeded by the revised standard: 'Shell Connects'. The real estate department has grown to 650 people, located all over the world. There are thresholds above which everything has to be reported to the (vice-) president real estate. If the operation is worth over 500 million dollars, it is the CEO that signs for Shell. The objectives for 2015 are: (1) making great places to work and (2) making sure to roll out the Connect standards everywhere possible, which means wherever an office is re-fit, it moves to Connect. All this has to be implemented whilst maintaining the budget flat year-on-year: "We wouldn't re-fit an office just to make it 'Connect' because that's a cost rather than a benefit" (Napier 2013).

15.2 CREDIT CRUNCH

This paragraph looks into the effect of the credit crunch on the most important research elements: the corporate and the real estate strategy of Shell. It handles the most relevant sub-questions in order to give answer to the main research question.

What is the impact of the credit crunch on the business results?

15.2.1 IMPACT MATRIX

The impact of the crisis on the Shell business is determined by three factors: (1) dependence on economy: sector beta, (2) geography and (3) external financing. The Shell impact matrix is shown in Figure 55.

15.2.1.1 Sector beta

Shell's beta is low. Shell stocks genuinely follow the market development. In the case of the AEX index, Shell dominates the AEX index. Shell operates in, and controls the entire supply chain. The upstream business is impervious: it is inelastic to changes in the market demand. The downstream business however is dependent on the economic conjuncture, especially for Shell is in the premium end of the market. Overall, Shell shows to experience little impact of the economic conjuncture on the performance of the corporation.

15.2.1.2 Geography

Shell is geographically fully diversified. Shell sells its products to all industries, in all parts of the world.

15.2.1.3 External financing

Shell is not dependent on external financing whatsoever. Not only does Shell generate a positive cash flow year-on-year, but it also has the financial reserves (capital) to finance investments.

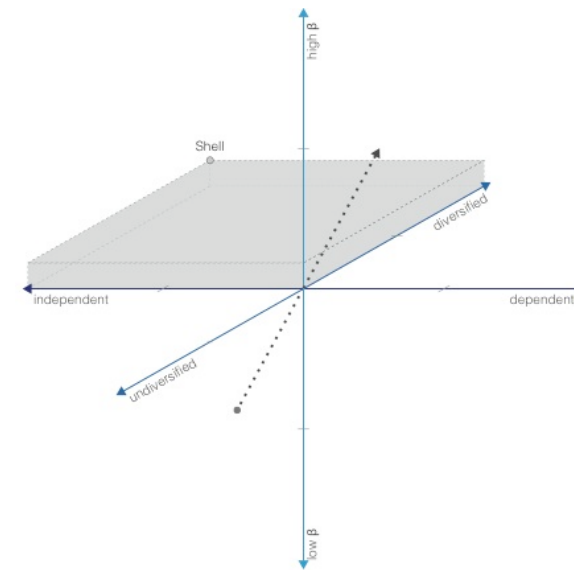


Figure 56: Credit crunch impact matrix, Shell

How did the corporation's corporate strategy change, influenced by the credit crunch?

Shell chemicals companies have been following a consistent strategy since the late 1990s, delivering bulk petrochemicals to large industrial customers, through simpler organizational structures and at the lowest total delivered cost. Although Shell's focus is long-term, the short-term influence of the credit crunch was clearly a drop in demand for Shell products: oil and gas. The downstream business, selling oil, fuel, and lubricants, was harmed for over three years (Napier 2013). Shell's short-term response to the credit crunch was the drop of the cost base, the run of corporate restructure programs and the disposal of non-profitable activities. Due to the 2009 reorganization, headcount dropped by 15% to 92.000 people.

Despite the cost reduction measures, Shell still tries to differentiate by putting the emphasis on technical expertise in a technical working environment and delivering advanced technologies and quality products for its customers, with awareness of the global environment (Diephuis 2009). Shell continues to invest in and maximize its key assets. The corporate strategy 'More upstream, profitable downstream' is, almost ten years after its introduction by former CEO van der Veer, still pursued.

What defines alignment between corporate and real estate strategy?

15.2.1 REAL ESTATE CLASSIFICATION

Shell holds production plants, rents offices and operates petrol filling stations. The petrol filling stations are managed by the retail business (London), genuinely on a franchise, license or leased basis, and are not the responsibility of the real estate department. The production plants are the responsibility of the different engineering business units. Shell Real Estate is mainly focused on offices and other (non-engineering) types of accommodation for its employees.

The Shell offices are important to Shell for their (1) representation, if required, and (2) the attraction knowledge workers. Shell wants to set an image and increase employee satisfaction and productivity. These conditions outweigh another important factor: costs, which make real estate of relative importance to Shell.

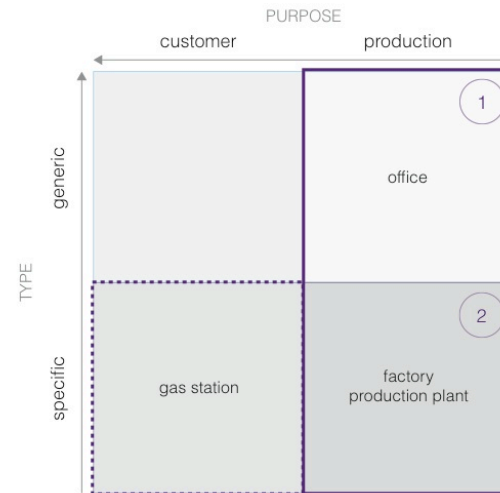


Figure 57: Real estate classification Shell

How did the corporation's real estate strategy change, influenced by the credit crunch?

Shell Real Estate is supportive to the business; it tries to meet demand and respond to the way the business goes. Shell Real Estate thereby closely works with the treasury department who effectively manages the costs of money. In 2012, Shell Real Estate has been ordered by the CFO to maintain the budget, which means that the department has to try to keep the budget flat year-on-year until 2015; even inflationary increases have to be offset by efficiency measures. All decisions are made on an NPV (net present value) basis. The other important stakeholder is the human resource (HR) community. The respective needs of both stakeholders are balanced; real estate has a quarterly performance review meeting with both parties.

The Shell business is divided into the upstream and the downstream business. During the credit crunch, the overall company remained profitable, but the downstream business had to

cope with losses. In an effort to reduce costs, downstream put pressure on the real estate department. Margins needed to get back up so the cost-base had to be lowered by 10%. Interestingly, the downstream business is more people intensive: out of 92.000 staff within Shell, about 60% of the offices is dedicated to the downstream business. Napier explains that in such a situation, real estate is challenged: "We as real estate had to demonstrate that we were in line with the business and actually cost competitive" (Napier 2013).

Shell's real estate response to the credit crunch was to take advantage of the weakened market. According to Mike Napier, Executive Vice-President Shell Real Estate, Shell has succeeded in this objective by means of multiple portfolio efficiency measures.

15.2.2 OBJECT DISPOSALS

Shell did give up a lot of space during the crisis. These are the result of corporate restructuring. For example, in The Hague and Rijswijk, Shell reduced the total footprint by 20% in square meters. That was replicated in London and Houston as well.

15.2.2.1 Ownership

According to Napier, managing the portfolio means continually looking at the size of the portfolio. Through most of the 2000s, Shell Real Estate was gradually disposing excess space or assets within the portfolio. When the credit crunch arrived and the bottom dropped out of the market, Shell suspended further disposals. In the meantime, Shell Real Estate has gone through numerous processes to prepare excess space for being taken to the market: e.g. environmental remediation, change of use, planning approvals, putting master plans together and getting architectural plans. Now, almost five years later, Shell is just starting to pursue on the disposals again in those parts of the world where the market is starting to pick-up again. For Shell, these markets are mainly in Asia – places like Australia, China and India – where Shell has a surplus and is in the position to actually have some strong product offerings in quite a boomed market.

15.2.2.2 Lease contracts

When disposing properties, the easiest way is to get rid of expiring lease contracts. However, when locked into the lease, there is nothing you can do about it. According to Shell, an unoccupied building is always cheaper to run than an occupied building: "It was

sometimes cheaper to give up a floor and mothball it, than to keep it running. You segregate a floor, turn off the services and wait for a change in the market or wait for the lease to expire" (Napier 2013). For example, Shell holds an entire building in The Hague that essentially has been left occupying for the last three years. The contract expires in May 2014; then, it will be handed back to the landlord. The surplus building is a direct consequence of the corporation's downsizing in 2009.

15.2.3 REDUCE HOUSING COSTS

After the impact of the credit crunch began to show off, Shell Real Estate put an awful lot of effort in identifying areas of cost savings and deferring traditional expenditures. Napier explains: "If we were requiring space, we would look at how to get lower cost space; instead of being in a very expensive central business district (CBD), we were looking in the second tier market in that same city" (Napier 2013).

15.2.3.1 Competitive benchmarking

Shell Real Estate makes use of external benchmarking to remain competitive. Napier knows many other corporate competitors have reacted much more strongly to the credit crunch than Shell has; Shell follows the developments of these corporations to challenge itself and remain competitive (Napier 2013). Benchmarking is done regularly within the oil industry, but also among other industries such as banks, pharmaceuticals and engineering companies. The broad performance metric is the costs per person accommodated per year. That takes into account all costs of renting, facility management and maintenance. However, it excludes the quality condition (service), but this should be according to the threshold. The denominator is the headcount in each office.

Before the start of the credit crunch in 2008, the target was 10.000 USD per person per year. The benchmark showed that the broad industry average came down in 2008 and 2009: companies moved to other locations, squeezed personnel in and renegotiated contracts. Shell was due to come down as well. Globally, the target within Shell nowadays lays around 8.000 USD per person per year. In some places this is much higher, such as in London: 13.000 USD. Others are far below that; think of Nigeria. The Hague is the average with 8.000 USD per person per year.

15.2.3.2 Renegotiating lease contracts

The real estate market has strongly deteriorated in the past five years. Shell made use of this opportunity to reconstruct or renegotiate quite a few of the portfolio leases. This included rental price and contract duration. According to Napier, between 2008 and 2010 the renegotiation of contracts was the main activity of Shell Real Estate (Napier 2013).

The renegotiation of contracts directly saved Shell lots of money on yearly basis, but does bring one big disadvantage: Shell is now locked into long-term leases for quite a period of time. If another credit crunch would come up on the short-term, Shell is strongly limited in the ability to react to it.

15.2.3.3 Low cost locations

Shell's location decision is about balance. On the one hand, Shell needs to be close to the assets; i.e. being close to the oil and gas fields and being close to the market. The market represents the major stakeholders: business partners. These can be both governmental and commercial. If demanded by the business, the decision is value focused in terms of having the right office that shows the right image in the right place. This often requires a representational office in the central business district, which is very expensive.

On the other hand, if location (value) is not important, it is definitely about costs. Shell tries to offset by locating on sub-urban campuses outside the central business district. Over the past ten years, Shell Real Estate has done an awful lot of deliberately moving activities to low-cost real estate locations. Napier: "The one balance you got in there is making sure that you have got access to talent. A low-cost location that no one wants to go to is ruled out" (Napier 2013).

15.2.3.4 Shell Connect

In 2008, Shell introduced the office concept 'Shell Works'. Shell Works is part of the mandatory standard that imposes a standard office design. In 2011, Shell Works has been succeeded by the new program 'Shell Connects'. Napier (2013): "Shell Connect is an upgrade on Shell Works. They are essentially guidelines for how we fit out and manage office space" (Napier 2013). Shell Connect follows the same principles as Shell Works: it provides standards of square meters per person, type of office environment, type of additional facilities, meeting rooms etcetera. The key concept is: the best space for the most

people. According to Napier, this is unique: "You'll find other corporates that will have senior executives on top floors and corner offices. Shell reverses that completely by locating single offices on the inside of the building and placing the most staff, following the open plan concept, along the façade with the most light" (Napier 2013).

The decisions to introduce the office standard in 2008 was twofold: the costs per person per square meter were considerably reduced, partly in response to the credit crunch and actually partly just Shell catching up with good corporate practice that others had already done. Napier explains: "We noticed that the office environment varied too much from place to place: we needed to establish baselines on what we should be offering as a minimum" (Napier 2013). The standard makes it possible to increase efficiency and lower the costs. According to Napier, moving to open-plan will provide more flexible 'officing'. This makes it able to reach higher levels of utilization for it requires less square meters per person without walls and door. In addition, it reduces the costs of moving people. Napier: "The standardized office environment makes it possible to move people around the building. The cost of refitting space and putting partitions up is too much" (Napier 2013). Especially in (uncertain) times of reorganizations, this can save considerable amounts of money.

15.2.4 FINANCING

The considerations regarding portfolio financing are dependent on multiple factors. For Shell, owning is cheaper than leasing. The reason not to own is where Shell wants to have flexibility. In general, Shell owns usually when it's industrial and long-term. The majority of the office portfolio is leased.

The benefit of leasing is flexibility. Headcount expands and decreases through the market cycles. Napier: "We don't know what the market and Shell will look like in, say five to ten years time. To manage uncertainty, the preference is usually to lease" (Napier 2013). All decisions are made based on a net present value (NPV) calculation. Shell includes options to take-up space or loose space in the lease contract, if necessary. But those options always come with a price: that makes the lease more expensive. The price is balanced against the likelihood that one would need more or less space.

Actually, Napier acknowledges that if Shell were going to have a corporate office for a very long term, they would probably own it. Buying out Shell's money is cheaper than the borrowing from the markets: "Rather than paying a landlord for his funding, his costs of capital, we'd buy it ourselves" (Napier 2013).

During the credit crunch, the decision to lease has paid off. Napier explains: "If we were left holding a large portfolio of owned properties, we would not have been able to dispose them for a reasonable sum. We would have almost certainly made a loss" (Napier 2013). For the vast majority of the portfolio, the book value would have been higher than the market value. This would have affected Shell's profit and loss (P&L) statement. As explained, those objects that were in ownership have been hold on to and have been, or will be prepared for disposal in the future.

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The effect of the credit crunch on the real estate strategy and real estate activities of Shell is minimal. The influence of the credit crunch is primarily indirect.

The real estate strategy has reacted two both internal and external effects of the credit crunch. Shell has analysed and reorganized the portfolio. Internally, major reorganizations and the demand of the business to keep the budget flat, has stimulated the real estate department to increase portfolio efficiency and reduce costs. This is, among others, realized through a new working concept and location policy. A lot of the disposals at that time were simply getting out of accommodations. Externally, the deteriorating real estate market has caused Shell to hold on to owned properties but has also provided the opportunity to renegotiate lease contracts. All implementations are shown in Table 16.

Theme	Impact credit crunch
Strategy	Competitive benchmarking.
	Renegotiation of lease contracts.
	Dispose leased assets to save service costs.
	Prepare owned objects for disposal in the future.
	Move to low cost locations.
	Create governance: Shell Connect.

Table 16: Real Estate Implementations Shell

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16

ABN AMRO

ABN AMRO Group N.V. is an all-round Dutch bank that offers a full range of products and services to retail, private, commercial banking clients. The Dutch state – by the foundation '*Administratiekantoor Beheer Financiële Instellingen (NLFI)*' – acquired ownership of the Dutch activities of ABN AMRO Holding N.V. and Fortis Bank Nederland during the credit crunch in 2008. ABN AMRO and Fortis Bank Nederland merged in 2010 to form the current ABN AMRO. ABN AMRO is still internationally active, focusing on the existing Private Banking activities in the Netherlands, Europe and Asia. The Dutch State-owned business serves over 4 million retail clients and more than 370.000 business clients (Singh 2010).

The real estate management case study within ABN AMRO is performed through interviews with Henk Schaap, Head Portfoliomanagement ABN AMRO, and Herman Dekker, former Senior Vice President ABN AMRO and Program Manager Transition Team ABN AMRO & Fortis Bank Nederland. Former real estate strategies are primarily based on research of Singer (2005), Singh (2010) and Pleijter (2012). Other sources include, among others, research of Krumm (1999), corporate real estate management literature and company statements.

16.1 CASE STUDY

ABN AMRO has proven to be a true commercial company: financial results have always driven business. After the merger between ABN Bank and Amro Bank in 1991, the banks together fought for global recognition as one. Real estate was no more than a means to an end. During these successful years, the organization never radically changed. When the 2007 financial crisis hit, things started to fall apart. The take-over by the consortium and nationalization by the Dutch state have dominated ABN AMRO's activities from 2007 onwards. Also in these years, real estate has facilitated and supported the business. ABN AMRO has no formal real estate strategy; the real estate strategy 'follows' the corporate strategy, which is influenced by trends and events in the banking sector. The real estate portfolio is divided into commercial and non-commercial real estate.

The merger in 1991 created the largest bank in the Netherlands both in terms of total assets and employees. Economies of scale were becoming an important factor in reducing expenditures, necessary to be able to compete on a global market. Sales doubled in the 1990s. The real estate portfolio integration following the merger was anything but efficient. Lacking a real estate strategy, both managements tried to prevent dissatisfaction among employees and ended up in a game of give and take: the '*Poldermodel*' (Schaap 2013). After the bank suffered the pain from the merger, it focused on the successful adoption of the primary driver for the merger: international growth. ABN AMRO expanded quickly through acquisitions in the United States and Brazil in the 1990s: year-end 2000, ABN AMRO employed 115.000 people worldwide. CHV took charge of real estate construction and investment divisions abroad (Krumm 1999). CHV's activities were divided into three divisions: (1) project management & consultancy, (2) real estate and (3) account management (Krumm 1999). In 1998, 7 years after the merger between ABN and AMRO, the total number of domestic branches was reduced from 1462 to 943. In the meantime the number of international branches increased from 466 to more than 2600.

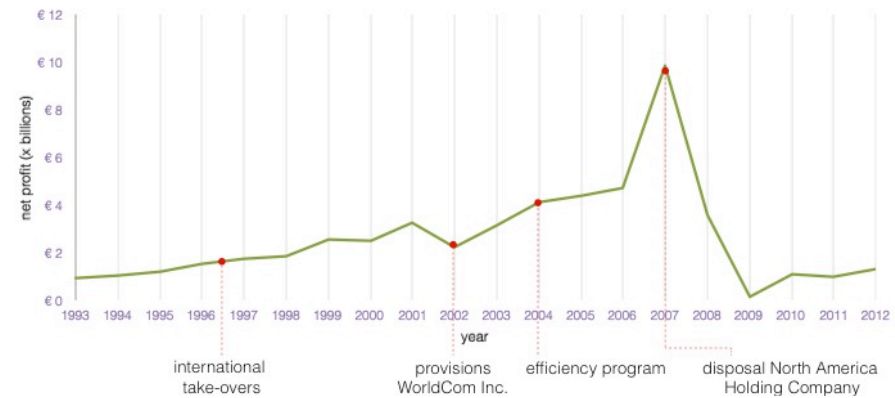


Figure 58: Net profit ABN AMRO, 1993 - 2012

At the end of the 1990s, the financial world changed. With the rise of the Internet, digital money made its debut. This rapidly decreased the need for traditional banks with large volumes of cash. ABN AMRO announced company-restructuring plans in 2001: operation '*Zonder omwegen*'. The goal: respond to changing market circumstances and increase efficiency. Over 6.500 FTEs were dismissed and 250 bank shops were closed. In 2000, ABN AMRO had about 39.000 employees; in 2004 the average number of employees decreased to 29.852 (Schipper 2005). A process of office concentration in the Amsterdam Southeast area was meanwhile carried out between 2000 and 2005. Many buildings were leased. New ways of working were introduced. All decisions were dictated by the business and executed by real estate for both commercial and non-commercial real estate.

Early 2005, ABN AMRO introduced its first-ever global tagline: 'Making more possible'. It represented customers and the bank together achieving goals and taking up challenges. ABN AMRO aimed to build on their strong mid-market positions (Schipper 2005). ABN AMRO increased the focus on (attracting) the client: bank offices were transformed into shops and strategically located along walking routes in 2005 (Schaap 2013). With the cost reduction program, ABN AMRO managed to ensure stable returns in the early 2000s, until the consortium of the Royal Bank of Scotland (British Isles), Fortis (Belgium) and Banco Santander (Spain) – by name of RFS Holdings – made an offer for, and eventually got hold of

ABN AMRO in 2007. Dutch personnel totals declined to almost 20.000 employees in 2008 as a result of the bank's efficiency strategy.

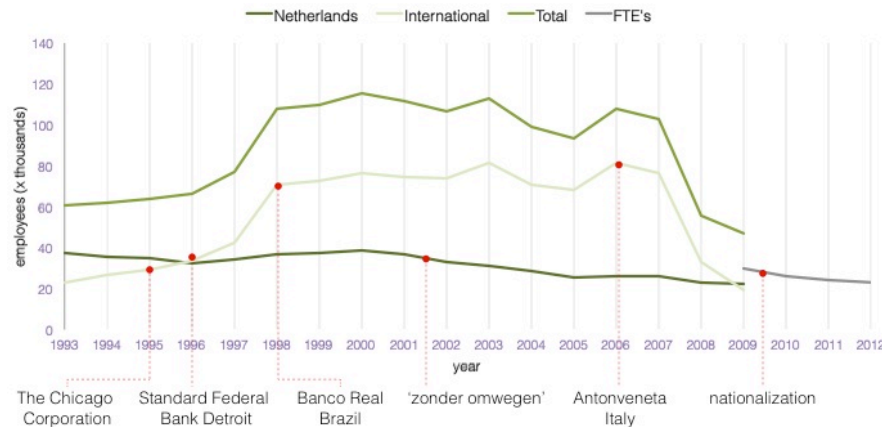


Figure 59: Number of employees ABN AMRO, 1993 - 2012

The result from continuing operations in 2008 was materially impacted by difficult trading and market conditions: "Operating income in business unit Europe decreased due to negative fair value adjustments (1.6 billion euros) on portfolios related to the first impact of the credit crisis that developed from the adverse conditions in the sub-prime mortgage market in the US" (ABN AMRO 2008). The loss of confidence in the financial markets led to liquidity problems that forced the Benelux countries into a partial nationalization of the bank. The Dutch state merged Fortis Bank Nederland (FBN) and the acquired divisions of ABN AMRO into the new ABN AMRO in 2010. Three business lines - retail banking, private banking and commercial and merchant banking – are remaining. The real estate department did have a major role in the nationalization process: it facilitated the merger process after already (pro-actively) having prepared different scenarios in 2007. ABN AMRO learned from the merger in 1991. The so-called '*Poldermodel*' was set aside: it was all about speed and money. The real estate department was given full responsibility. Decisions were made with a technical reasoning and checked with the business units, before being brought into practice. Decision-making regarding non-commercial real estate was based on time and costs; interference of the business units was not appreciated. The Management Board

called the shots: the real estate department took care of the operations. Real estate centralized the ABN AMRO office portfolio and introduced new working concepts. The deteriorating real estate market made it difficult to dispose properties. ABN AMRO real estate dealt with (1) the extension of sales terms, (2) pressurized prices and (3) a different type of buyers. ABN AMRO has seven offices left in the Netherlands. ABN AMRO's purely operational approach towards real estate has led to a relatively balanced ownership/lease ratio for the portfolio: from 60% - 40% in 2010, to 50% - 50% after the merger with Fortis Bank Nederland.

In 2012, the bank finished the integration of ABN AMRO Bank and Fortis Bank Nederland. The number of FTEs decreased to 25.350 in 2012: a reduction of almost 5.000 FTEs over the period 2009 – 2012. The merger of the offices and the disposal of the retail network have resulted in structural cost savings of 220 million euros a year through: (1) the removal of all overlapping shops in the network; (2) the tackling of hidden office vacancy of both banks; and (3) the introduction of a new working concept (Dekker 2013). ABN AMRO centralized the real estate department in the operations department of the bank. Internationally, real estate management became a task of the local operational management, supported by the real estate department in the Netherlands (Plijter 2012). Van Hall, Member of the Managing Board: "We finalized the integration on schedule and within budget, while minimizing inconvenience to our clients. All in all, we have successfully combined two organizations into one solid, streamlined bank" (ABN AMRO 2012). ABN AMRO restated its goals and objectives, focusing on selective growth and the client. ABN AMRO expects to be listed (again) not earlier than 2015.

16.2 CREDIT CRUNCH

This paragraph looks into the effect of the credit crunch on the most important research elements: the corporate and the real estate strategy of ABN AMRO. It handles the most relevant sub-questions in order to give answer to the main research question.

What is the impact of the credit crunch on the business results?

16.2.1 IMPACT MATRIX

The impact of the crisis on the ABN AMRO business is determined by three factors: (1) dependence on economy: sector beta, (2) geography and (3) external financing. The ABN AMRO impact matrix is shown in Figure 61.

16.2.1.1 Sector beta

ABN AMRO's beta is high. The risks in the banking sector have become very high in the past decade and are not subsiding yet: "Bank share prices remain exceptionally volatile and on-going regulatory developments continue to weigh on the sector" (Forrest and Kennedy 2012). The banking sector has evoked the 2007 financial crisis and is consequently hit the hardest by it. European banks are forced to stabilize their capital and funding sources, and clean up balance sheets. In addition, they must improve their revenue and cost bases (Daruvalla, Dietz et al. 2012). The confidence in the sector has quickly disappeared. The risk is shown in the banking sector beta: Figure 60.

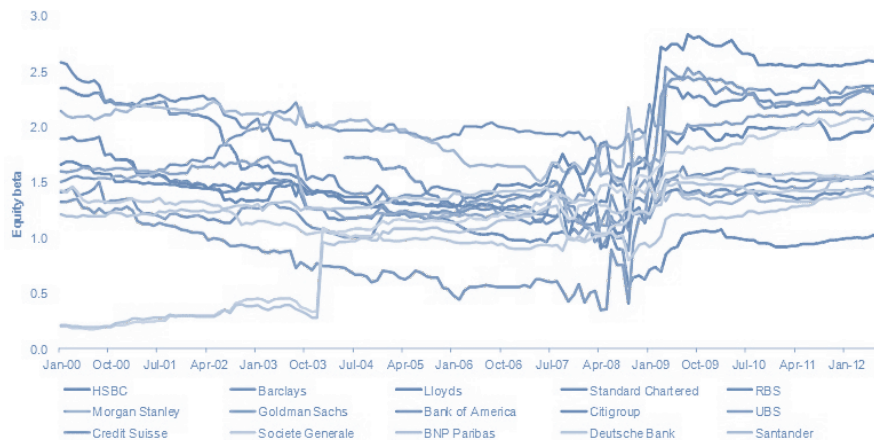


Figure 60: Bank equity beta (Forrest and Kennedy 2012)

The beta of the financial sector has not always been that high. The demand for financial products, such as loans and mortgages, are genuinely strongly correlated with the economic conjuncture. During the recession early 2000s, financial institutions were not under pressure more than other corporate institutions were.

16.2.1.1 Geography

ABN AMRO is undiversified. ABN AMRO is active in the Dutch (European) market. After the nationalization by the Dutch state, almost all foreign activities have been disposed.

16.2.1.2 External financing

ABN AMRO is, as almost every other bank, fully dependent on external financing, mainly from customers, other banks and governmental bodies.

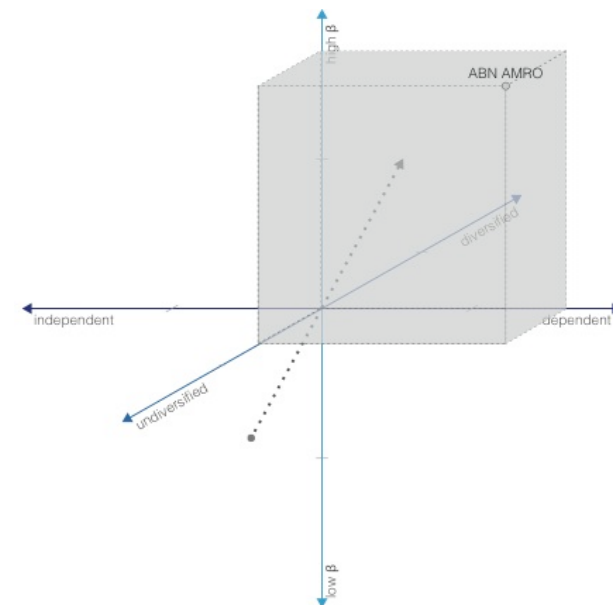


Figure 61: Credit crunch impact matrix, ABN AMRO

How did the corporation's corporate strategy change, influenced by the credit crunch?

ABN AMRO has never shied away from hard and effective measures concerning the corporate course, illustrated by operation 'Zonder omwegen' in 2001. The credit crunch has influenced the corporate course of ABN AMRO heavily, beyond its own influence. The take-over and nationalization have changed the corporate structure and activities: ABN AMRO again took hard and effective measures to make the organization healthy. Gerrit Zalm announced the need for structural costs savings – almost 1 billion a year – and the reduction of 5.000 jobs. Many of these proposed savings had to be accomplished by the real estate team. For ABN AMRO, it was very important to improve its trustworthiness and image. ABN AMRO restated its goals and objectives: it is now focusing on selective growth and the client.

What defines alignment between corporate and real estate strategy?

16.2.1 REAL ESTATE CLASSIFICATION

ABN AMRO holds offices and operates retail shops to provide service to clients. Regional offices combine retail and back-office facilities in one object. ABN AMRO's real estate portfolio is market-conform. The shops are important for the competitive position of ABN AMRO. Even the ABN AMRO offices are expected to contribute to the ABN AMRO image. ABN AMRO is however not the number one customer-focused bank in the Netherlands.

The ABN AMRO real estate department has full responsibility. However, its main task is to serve the business, which means that the individual business units have strong influence on the portfolio decisions.

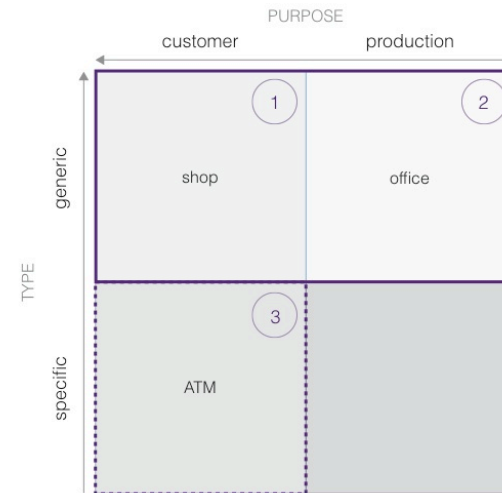


Figure 62: Real estate classification ABN AMRO

How did the corporation's real estate strategy change, influenced by the credit crunch?

The credit crunch created a straightforward real estate strategy: fast and (cost)efficient portfolio integration. The business-like approach regarding commercial real estate was necessary to ensure quick savings and to immediately envision the integration to the customer. The strategy enabled a different approach towards real estate decision-making, real estate financing and real estate activities.

Under van Hall's leadership, facility management unrolled its plans in 2009 with a large sense of urgency. Dekker (2013), ABN AMRO program manager of the relocation, explains: "We have to show to the world that we are one and the same bank." With the front-offices in place, the bank could efficiently integrate the back-offices afterwards. The plans represented the leading role of ABN AMRO in the merger. Anticipating on the take-over by the consortium, ABN AMRO facility management had already analysed the portfolio and

constructed different scenarios. The plans were divided into (1) commercial and (2) non-commercial real estate.

16.2.2 COMMERCIAL REAL ESTATE

Commercially, the scope of the assignment for the transition team was very large. The driving forces behind the operation were speed, efficiency and action. ABN AMRO and FBN both had an extensive, largely overlapping, office network in the Netherlands. Over 150 bank offices were located at almost exactly the same location. These and many others had to be merged and closed as quickly as possible (Schaap 2013). The process was initiated from a purely pragmatic point of view, contrary to the merger of ABN Bank and Amro Bank in the early 1990s. To fully optimize the portfolio, facility management used a rather technical approach: "Without interference from the business units, we had to take decisions here and now. We regarded location, size, costs, contract and future operations (FTEs)" (Dekker 2013). The operational department focused on the architectural object specific aspects such as renovation costs and layout; the portfolio management department looked into the commercial aspects from real estate point of view: contracts. With the scope and turnover of the region, facility management was able to determine the desired amount of shops, employees and square meters of office space necessary to accommodate the area.

Integration	Merger 1991: ABN & Amro Bank	Merger 2010: ABN AMRO & FBN
Process	Facility management departments. 'Poldermodel': give and take.	Transition team. Full responsibility. From 'Poldermodel' to pragmatic approach: Driving forces operation were speed, efficiency and action.
Considerations	Political considerations. Financially no preference: flexibility.	Technical considerations. Leasing. Difficult to sell now.

Table 17: Integration process ABN AMRO

It was not until all portfolio decisions were made, that facility management verified the plans with the business units to support the decisions commercially. The portfolio shrunk from 1,1 million square meters to 700.000 square meters in the period 2009 – 2012. Over 300 retail shops of both ABN AMRO and the former Fortis Bank Nederland have been closed. There

are about 525 bank shops remaining in the Netherlands; 25 of them are regional offices that combine retail and back-office (Schaap 2013). The disposal of bank shops all over the country started in 2010 and was finished during the integration process.

16.2.3 NON-COMMERCIAL REAL ESTATE

Budget cuts drove the integration process of non-commercial real estate: "Despite what management says, there was only one reason for the reorganization: quick and efficient relocation with budget cuts. The introduction of new ways of working and improved working conditions were, in that phase, merely a nice bonus. The philosophy was: *'eerst draaien, dan verfraaien'*" (Schaap 2013). In order to achieve the budget cuts, the program required a reduction of FTEs and workplace ratios. Facility management sketched four office-integration scenarios – on object level – and presented these to the Management Board. The scenarios covered costs, size and image of the portfolio decisions to be made. With the approval of the Management Board, the second cost-efficient scenario was further elaborated and put into practice. This included the disposal of numerous mid-size offices, primarily of the former Fortis Bank Nederland. The scenarios were again not discussed with the business units to increase speed.

In the end, the integration of ABN AMRO and Fortis Bank Nederland lead to three profitable actions: (1) one bank shop per market area by the removal of all overlapping shops in the network; (2) the tackling of hidden office vacancy of both banks; and (3) the introduction of a new working concept (Dekker 2013). As part of the integration, a total of 114 buildings (including 30 regional and head offices) were divested and 144 rental contracts were terminated by the end of 2012. The result: the disposal of 20.000 workplaces and a structural cost saving on housing of 220 million euros a year, excluding ICT costs (Dekker 2013). Van Hall: "We finalized the integration on schedule and within budget, while minimizing inconvenience to our clients. All in all, we have successfully combined two organizations into one solid, streamlined bank" (ABN AMRO 2012).

The finalization of the relocation is only the beginning for future developments. It is business as usual again, although the focus changes: "Efficiency is on track; now we need to increase satisfaction. We move from a general to a personal perspective" (Schaap 2013).

16.2.3.1 Relocation

ABN AMRO facility management used the merger to introduce a new working concept. It set a maximum for the amount of square meters per workplace and a maximum ratio between the amount of FTE and workplaces. The norm is 0.7 workplace per FTE and 16 square meters GFA per FTE (Plijter 2012). This made it possible to deliver tailor-made offices for all business units. "We were able to make a virtue of need by relocating as many employees as possible and presenting them a new and improved workplace. We thereby drastically lowered resistance from employees" (Dekker 2013). Over 25.000 employees moved to other locations within the Netherlands (ABN AMRO 2012).

16.2.1 DECISION-MAKING

Decision-making within ABN AMRO is a get-together between the specific business unit and the real estate department. The real estate department works with scenario planning in order to respond to changes in the business: "If business has a new philosophy, it is our task to adapt our real estate to that philosophy as quickly as possible" Although decision-making regarding real estate is a constant dialogue, the business unit is authorized to make its own decisions as long as they do not conflict with the real estate department objectives. During the integration process, the roles changed. Different from the 1991 merger, the transition team now got the responsibility and authority to make quick and efficient decisions. Although these often affected one or more (sub) business-units, the team was not obligated to respond to their demands. The team applied technical considerations over political considerations: the vast majority of the object decisions were made purely financial; only with great exception, political aspects (give and take) came into play.

16.2.2 FINANCING

The deteriorating real estate market, under influence of the financial crisis, does affect the financing of the ABN AMRO portfolio. It has become especially hard to sell objects since institutional investors have retreated. ABN AMRO is more and more dependent on private investors. The disposal of property during crisis years entails (1) the extension of sales terms, (2) pressurized prices and (3) a different type of buyers. Schaap (2013) explains: "We are more than ever forced to pro-actively manage our business relations to be able to dispose objects from our portfolio." ABN AMRO's purely operational approach towards real

estate has lead to a relatively balanced ownership/lease ratio for the portfolio: from 60% - 40% in 2010, to 50% - 50% after the merger with Fortis Bank Nederland.

According to Schaap (2013), in practice it makes no difference in operational real estate management whether ABN AMRO owns or leases its portfolio objects, considering that ABN AMRO can borrow money easy and cheap. Both financing methods are comparable in terms of flexibility. When required, an owned object can be sold from one day to another. Intermediate buy-off of a lease contract is quite expensive: generally, the tenant is ordered to pay the net present value of the remaining cash flow. The few owned buildings that have been disposed over the years, were sold for the following reasons: (1) need for cash (liquidity), (2) deleveraging and (3) exit strategy. The exit strategy is the result of the rule: if not used for the operational business, immediately dispose.

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The effect of the credit crunch on the real estate strategy and real estate activities of ABN AMRO is big. The influence of the credit crunch is direct.

Real estate within ABN AMRO is solely used to support the business in the best possible way. Real estate activities are therefor primarily a consequence of decisions on management level. The nationalization (merger) required major transformations and implementations on object level: fast and (cost-)efficient portfolio integration. This required quick, purely technical decision-making. Both the commercial- and non-commercial portfolio have been reviewed. The overlapping office network is disposed. Almost all staff has been relocated. Real estate represented the real-life realization of the merger: to show the world that ABN AMRO and FBN is one and the same bank. The merger of the offices and the disposal of the retail network have resulted in structural cost savings of 220 million euros a year.

Normally, real estate objects that are not used for the operational business, are immediately disposed. The credit crunch has made it hard to sell objects since institutional investors

have retreated. The credit crunch provided ABN AMRO the opportunity to make a virtue of need by relocating as many employees as possible and presenting them a new and improved workplace. All implementations are shown in Table 18.

Theme	Impact credit crunch
Organization	Foundation 'transition team': full responsibility for quick decision-making.
Strategy	Gain quick savings: <i>'Eerst draaien, dan verfraaien'</i> .
	Dispose overlapping commercial portfolio network.
	Tackle hidden office vacancy.
	Prevent resistance: present all employees new working environment.
	Introduction new working concepts.

Table 18: Real Estate Implementations ABN AMRO

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17

ING

ING grew from a series of mergers between banking and insurance firms; ING Group was officially founded in 1991 by a merger between Nationale-Nederlanden and NMB Postbank Group. ING Group was one of the first integrated financial services providers in the world. After the merger, ING consisted of two holdings: ING Insurance NV and ING Bank (Krumm 1999). The roots of ING can be traced back to the insurers '*De Nationale Levensverzekering Bank*' and '*De Nederlanden van 1845*', and to the public bank services such as '*De Rijkspostspaarbank*' and '*De Postcheque- and Girodienst*', as well as to the '*Nederlandsche Middenstands Bank*' (ING 2013).

The real estate management case study within ING Bank is performed through an interview with Ad Hagedoorn, Senior Manager Local Real Estate Management. Former real estate strategies are primarily based on research of Diephuis (2009), Kreijkes (2009), Singh (2010) and van Ussel (2010). Other sources include, among others, research of Krumm (1999), corporate real estate management literature and company statements.

17.1 CASE STUDY

In the 1990s, ING Group became a prominent player in the European financial markets and one of the world's largest providers of integrated financial services (banking, insurance and asset management) through a mixture of organic growth, such as the creation of ING Direct from scratch, as well as various large acquisitions, such as the Barings Bank in 1995 (Krumm 1999). Net sales boomed from 20 billion euros in 1993 to 94 billion euros in 2001, an increase of almost 500%. The stock price hit the €34 mark. On November 1 1995, ING Real Estate was launched. The primary activity of ING Real Estate was investing the capital of the insurance business of the ING Group. The second activity was the development and realization of accommodation for the ING Group, all over the world (Krumm 1999). CREM however did not contribute to the business; facility management (FM) did (Hagedoorn 2013). The real estate strategy during the growth years was incremental and solely focused on supporting the core business by facilitating offices and increasing the image of the organization through the design, location and quality of the building (Kreijkes 2009). By 2001, the FM department had grown to unprecedented levels: the department comprised 1.600 people and disposed of, among others, own Finance, Human Resources and Administration divisions (Hagedoorn 2013).



Figure 63: AEX index ING, 1993 – 2012

In Europe, ING remained largely dependent on its home market as almost 75% of ING Europe's operational result was generated in the Netherlands (ING 2000). In 2001, the weaker economy and depressed equity markets drove up risk costs and strongly reduced fee income in investment banking, asset management and equity-linked insurance products. ING was for instance confronted with major claims relating to the 9/11 WTC disaster (ING 2001). The 2001 – 2003 crisis forced ING to take action. The Management Board considered it necessary to increase ING's solvability and financial position – to become less exposed to market fluctuations – by improving the debt/equity ratio; they focused on lowering the cost base and increasing activities in emerging markets. Most important: strengthening the current portfolio and activities. No major acquisitions were planned (ING Groep N.V. 2003). In 2004, the real estate organization changed: CREM became integrated in the FM department. CREM used to be only commercially oriented; it now became more operational and less strategic. The financial considerations changed: ING was explicitly committed to dispose owned objects and increase the share of leased objects, such as the sale-and-leaseback of the (current) headquarters Amsterdamse Poort. The considerations were not secured in the strategy; the Management Board now and then delegated these decisions to the real estate department in the form of a directive. ING also put a hold on the development of specifically designed retail shops, associated with the headquarters by Alberts and van Huut (Hagedoorn 2013).

After the crisis, financial products were hot again and the highly valued Dutch housing market did the rest: business improved considerably. ING's strategy remained to improve the performance of all processes and services and increase the insurance activities in emerging countries (ING Groep N.V. 2006): "The successful execution of the strategy is underpinned by continued efficient reallocation of capital through redeploying the capital we generate in mature markets to high-growth businesses" (ING Groep N.V. 2007). The real estate strategy focused on increasing the productivity and supporting the primary activities the best way possible (Diephuis 2009). Cost reductions were a result. The FM division supervised the quality level and managed the service contracts.

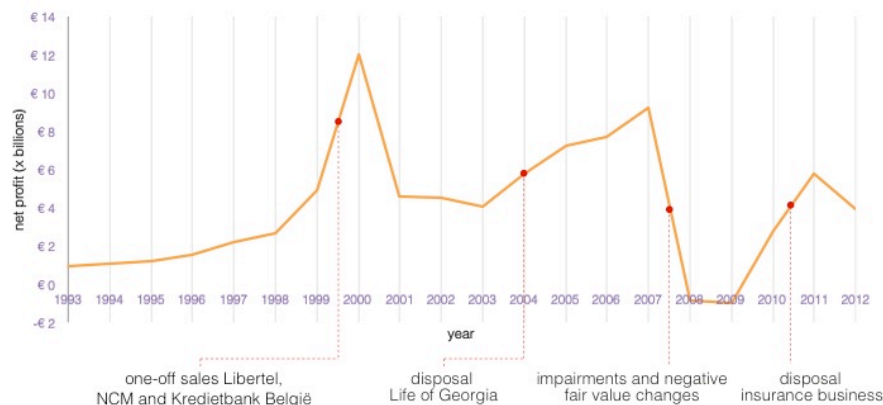


Figure 64: Net profit ING, 1993 – 2012

Profit built up until the financial market deterioration in 2008. In 2007, ING's share price decreased 20,4% from €26,75 at year-end. Over the full year, ING underperformed the AEX by 23,8% points. ING confronted the crisis head-on by putting customers first, preserving a strong capital position, further mitigating risks and lowering costs: "Going forward we will take steps to strengthen our financial position and adjust to the reality of the global recession while keeping focus on our long-term priorities: we will assess our strategic focus and review our portfolio in the best interests of our customers, the markets we want to be in, our distribution models and our product offering" (ING 2008). For the first time in the company's history, ING had to announce a net loss in the third quarter of 2008: "The sharp market decline in 2008 has confronted us with significant impairments and negative revaluations across almost all asset classes" (ING 2008). After stock prices tumbled October 2008, ING received a 10 billion euros capital injection from the Dutch Government: a necessary move to increase its core Tier 1 capital ratio above 8%. The Dutch Government in exchange received securities and veto rights on major operational changes and investments. Although the organizational structure already changed in 2004, the CREM discipline within FM was not fully operational until it got formally placed and was finally valued in 2008 (Hagedoorn 2013).

Already in May 2007, ING Group announced to merge its subsidiaries ING Bank and Postbank into one single brand: ING. The integration process went hand in hand with the

implementation of a new retail concept. ING created a new image and aimed to win back trust by putting the customer first (Hagedoorn 2013). The integration of both banks was a two-year lasting process in which both front and back-offices were combined. The operation was called 'project Tango'. Despite the financial crisis, the new concept had to be implemented as quickly as possible, regardless the costs: "The organization was in heavy weather and desperately needed a change of course" (Hagedoorn 2013). This resulted in a rather rigorous approach, strongly influencing the real estate portfolio and organization. Hagedoorn: "The organization came up with a new business model in which real estate had a inferior role." Originally, the integration process was planned to take about three years. In 2009, after 1,5 years, the process was as good as finished. After the full integration of Postbank and ING in 2009, the vacancy level rose due to the implementation of a new retail concept and the centralization of back-offices.

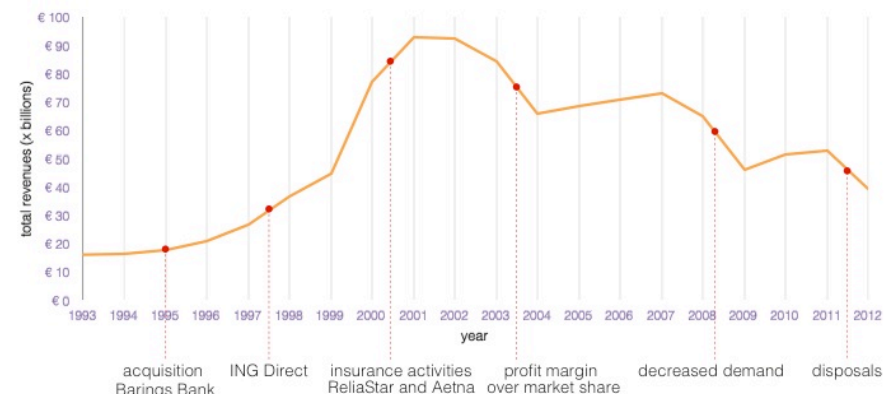


Figure 65: Revenues ING, 1993 – 2012

In 2010, ING Bank initiated an international Corporate Real Estate Management department that was placed on corporate level, in charge of the global governance structure and involved in the major real estate decisions worldwide (Hagedoorn 2013). Corporate Real Estate Management on national level was re-branded Local Real Estate Management (LREM). CREM and LREM have a joint responsibility to set and realize the strategic corporate real estate objectives (Hagedoorn 2013). Within FM, secondary and supporting activities were outsourced or placed within Shared Services: the department shrunk to about

400 employees. In that year, ING put a hold on the acquisition of new real estate objects. LREM is allowed to acquire a maximum of two new retail objects a year.

As a condition of the capital injection, the European Commission demanded a number of changes to the company structure: ING was forced to divest all insurance and investment management operations by the end of 2013. Business was still running relatively well, hence the quick recovery of ING Group in 2009: in Dec 2009, ING raised 7,3 billion euros through share issues, and repurchased securities representing half of the 10 billion euros in state aid. In the Netherlands, ING Group split banking and insurance operations into ING Bank and Nationale-Nederlanden (NN) in 2010. Globally, ING divested many international insurance businesses and ING sold the ING Direct business in the United States (June 2011), Canada (August 2012) and the United Kingdom (October 2012): "The transactions are part of ING's on-going evaluation of its portfolio of businesses and is in line with ING's strategic objective to sharpen the focus of the bank and further strengthening its capital position" (NOS 2012). ING focuses on consolidating and developing the strengths of the banking operations. Pre-crisis size of the ING Group was estimated at 125.000 FTE'; after the governmental interference, ING cut and disposed activities resulting in the loss of 40.000 FTE's in three years (ING 2012). The FM department reduced its staff to about 300 people after the divestment of Nationale-Nederlanden in 2010. ING House, the headquarters of the ING Group between 2002 and 2012, has been left to Nationale-Nederlanden. Due to technological developments, such as mobile applications, ING was able to further centralize the organization and decrease headcount. The portfolio has been optimized: 53.000m2 office space was divested. There are however still thousands of square meters vacant and ready to be sold: ING holds on to them to be able to sell for the right price.

After the last payment in May 2015, ING will have paid EUR 13.5 billion to the Dutch State, with a total annualised overall return for the State of 12.5% (ING 2012). CEO Jan Hommen: "Since launching our Back to Basics programme in 2009, we have worked hard to safeguard our financial strength, simplify our organisation and further strengthen the focus on our customers, ensuring they are at the heart of everything we do" (ING 2012). Optimization of the activities, through operational excellence and synergies, has lead to 215 people currently working within the FM discipline in 2012: 27 FTEs are responsible for LREM. LREM is now well organized and fully supporting the business.

17.2 CREDIT CRUNCH

This paragraph looks into the effect of the credit crunch on the most important research elements: the corporate and the real estate strategy of ING. It handles the most relevant sub-questions in order to give answer to the main research question.

What is the impact of the credit crunch on the business results?

17.2.1 IMPACT MATRIX

The impact of the crisis on the ING business is determined by three factors: (1) dependence on economy: sector beta, (2) geography and (3) external financing. The ING impact matrix is shown in Figure 66.

17.2.1.1 *Sector beta*

ING's beta is, just like that of ABN AMRO, extremely high. See paragraph 16.2.1.1 for further explanation.

17.2.1.2 *Geography*

ING is geographically diversified. Before the crisis, it has actively reallocated capital to high-growth businesses in emerging markets; ING once was the biggest insurance corporation in the world. Although the ING Group was forced by the authorities to split and dispose many (insurance) activities, ING Bank still holds over 2400 offices in 40 different countries.

17.2.1.3 *External financing*

ING is, as almost every other bank, fully dependent on external financing, mainly from customers, other banks and governmental bodies.

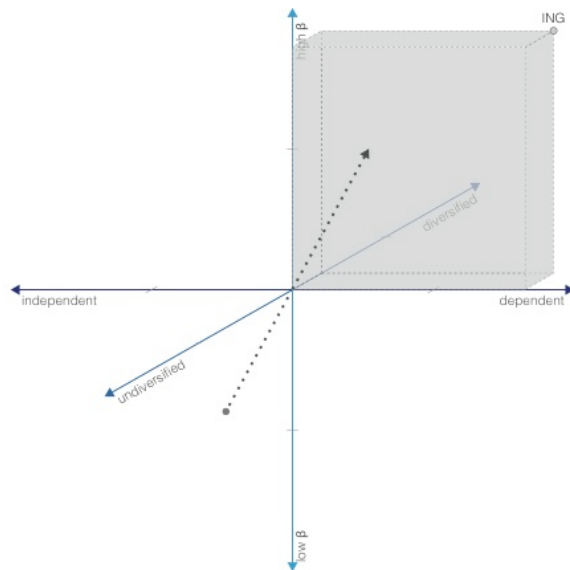


Figure 66: Credit crunch impact matrix, ING

How did the corporation's corporate strategy change, influenced by the credit crunch?

The corporate response to the credit crunch was already initiated after the 2001 – 2003 recession. ING increased its solvability and financial position – to become less exposed to market fluctuations – by improving the debt/equity ratio; they focused on lowering the cost base and increasing activities in emerging markets. In addition, ING improved the performance of all processes and services.

In May 2007, just before the start of the financial crisis, ING Group announced to merge its subsidiaries ING Bank and Postbank into one single brand: ING. The year 2008 was a disastrous business year: ING faced operational losses. The integration process continued and was used to create an improved image and aimed to win back trust by putting the

customer first. Therefore, a new retail concept was implemented. Despite the financial setbacks and the governmental capital injection, ING was willing to spend all financial means necessary to make the integration and implementation a success. ING more specifically focused on the markets they wanted to be in, on distribution models and on product offering (ING 2008).

From 2010 onwards, the corporate strategy was dominated by reorganizations and disposals - especially the split of ING Group's banking and insurance operations into ING Bank and Nationale-Nederlanden (NN) – demanded by the European Commission. ING's 'Back to Basics' program focused on consolidating and developing the strengths of the banking operations by improving the financial basis, simplifying the organisation and further strengthening the focus on the customers, ensuring they are at the heart of everything ING does (ING 2012).

What defines alignment between corporate and real estate strategy?

17.2.1 REAL ESTATE CLASSIFICATION

ING holds offices and operates hundreds of retail shops to provide service to clients. ING differentiates the '*hoofdkantoorlocaties*' (HK), i.e. corporate offices, and '*regiokantoren*' (RK), i.e. regional offices and retail: bank shops and single-based ATM's. The portfolio still contains many buildings originating from NMB and Postbank. The commercial business is leading in real estate decision-making regarding the retail portfolio.

The shops are important for the competitive position of ING. ING uses its real estate to promote its image and to get closer to the customer. ING deliberately makes its real estate concepts recognizable and representational. As well as ABN AMRO, the entire real estate portfolio is used to set an image.

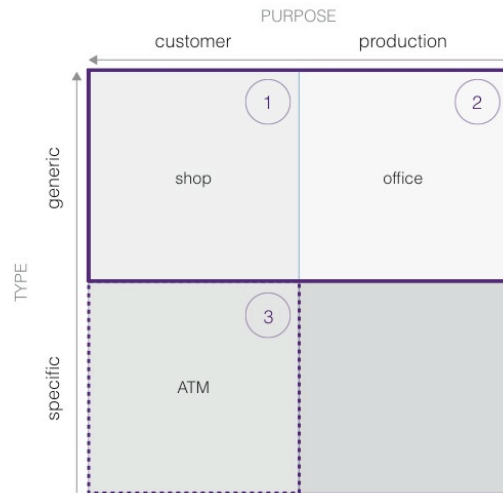


Figure 67: Real estate classification ING

How did the corporation's real estate strategy change, influenced by the credit crunch?

ING's real estate activities are strongly dominated by the integration of ING and Postbank (2008 – 2009), and the split of ING Group into ING Bank and Nationale-Nederlanden (2010), the direct result of the credit crunch. The real estate organization, portfolio and strategy have changed due to these business developments.

17.2.2 ORGANIZATION

Although the organizational structure already changed in 2004, the CREM discipline within FM was not fully operational until it got formally placed and finally valued in 2008 (Hagedoorn 2013). CREM used to be only commercially oriented; it now became more operational and less strategic. The need for corporate real estate management practices became bigger. Therefore, ING divided the FM department into three disciplines: (1)

(Corporate) Local Real Estate Management (LREM): asset management and technical property management, (2) Manage Service Providing (MSP): in charge of security, catering and cleaning, and (3) Operations (OPS): service-delivery on location. Secondary and supporting activities were outsourced or placed within Shared Services; the FM department shrunk to about 400 employees. However, the integration process between ING and Postbank was led by business (commercial) motives and LREM had to basically stand by and watch. It was therefore not until 2010 that the department was fully installed and became a significant player within the ING business.

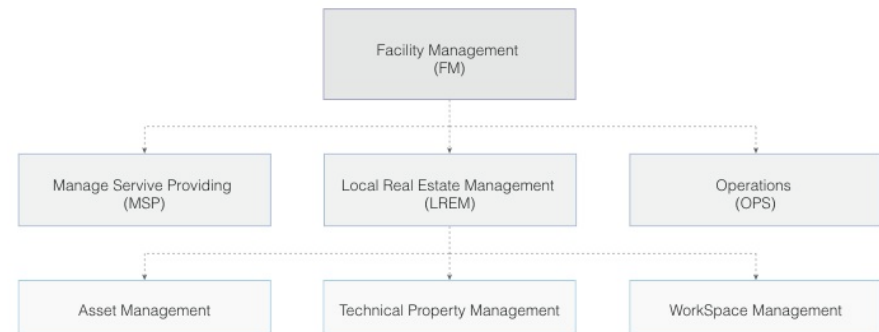


Figure 68: LREM integrated in FM (Hagedoorn 2013)

In 2010, at the time of the break-up between the banking and insurance operations, the corporate organization was restructuring once again. ING Bank initiated an international Corporate Real Estate Management department that was placed on corporate level. De Gendt became in charge of this department, consisting of 9 people. The department, officially called 'GPB/CREM', is in charge of the global governance structure and is involved in the major real estate decisions worldwide (Hagedoorn 2013). De Gendt and his team deploy for instance new office concepts, ratios and contractual agreements. Every country has its own Local Real Estate Management representative that assists in local issues, mainly for administrative and legal reasons. The GDP/CREM department is primarily focused on Europe. At the same time, FM reorganized once more as well. The department reduced its staff to about 300 people after the divestment of Nationale-Nederlanden in 2010. Optimization of the activities, through operational excellence and synergies, has further

decreased the FM department to 215 people in 2012: 27 FTEs are responsible for LREM. LREM is now well organized and fully supporting the business.

CREM and the LREMs have a joint responsibility to set and realize the strategic corporate real estate objectives (Hagedoorn 2013). Both CREM and LREM are in the line of the CFO. LREM is held accountable for its action by the CFO of ING Netherlands and CREM by the CFO of ING Group.

17.2.1 PROJECT TANGO

In May 2007, ING Group announced to merge its subsidiaries ING Bank and Postbank into one single brand: ING. The integration of both banks was a two-year lasting process in which both front and back-offices were combined. The integration process went hand in hand with the implementation of a new retail concept. The operation is called 'project Tango'. The new organization is officially launched in February 2009.

'Project Tango' was necessary to mark the fresh start of ING. Despite the financial crisis, the new concept had to be implemented as quickly as possible, regardless the costs: "The organization was in heavy weather and desperately needed a change of course" (Hagedoorn 2013). This resulted in a rather rigorous approach, strongly influencing the real estate portfolio and organization. Hagedoorn: "The organization came up with a new business model in which real estate had a inferior role."

The new retail concept required major changes in the real estate portfolio. First and foremost, the concept included a different location strategy: a move from the outskirts of the city, to city centre (A-) locations. This resulted in (1) vacancy of the current retail portfolio and (2) the acquisition of new objects on (the most) expensive locations. Furthermore, the concept demanded shops with a large front-width: big windows and a dominant position in the city centre landscape. This resulted in the necessary acquisition of two adjacent buildings – city centre properties are generally not that wide – such as the ING shop on the Amsterdam 'Rokin'. Eventually, all existing and newly acquired shops needed to be fully renovated and redesigned. The costs of the major transformation, which was executed between 2008 and 2010, ran in the hundreds of millions.

The business made a lot of unfortunate decisions regarding real estate management during the integration and transformation process: "There was no dialogue possible regarding real estate: speed was all that mattered" (Hagedoorn 2013). When 'hell broke loose', CREM was still in its infancy. Especially in the beginning of the process, CREM had to stand by and watch.

17.2.1.1 'Kilo-knallers'

After the full integration of Postbank and ING in 2009, the vacancy level rose due to the implementation of a new retail concept and the centralization of back-offices. Total vacancy is about 60.000 – 70.000 m²: these are mainly regional offices (1.500m² – 3.500m² a piece) and commercial banking shops. There are thousands of square meters vacant and ready to be sold. The real estate market in 2013 however is still very unfavourable for selling parties. Although vacant properties cost a lot of money - other businesses would probably go broke on it – ING makes the deliberate choice to hold on to them if not sold for the right price. Liquidity problems are not an issue and creating liquidity is therefor not a written objective: "We want to sell because the property is empty and useless. The vacancy costs are manageable. We are more worried about the image of vacant properties: if these are still associated with ING, they can harm the brand" (Hagedoorn 2013).

Hagedoorn (2013) knows ING eventually has to bare the losses and amortize: "Prices will not in the short term, and probably never, rise to precedent levels." Anticipating on future sales, Hagedoorn and his team have made a selection of the properties that are most welcome to be sold, i.e. problematic: the so-called '*kiloknallers*'. These are mainly regional offices between 2.000 – 3.000 m². Hagedoorn is in the process of negotiating a reasonable price bandwidth with the business for which the objects are allowed to be sold. To minimize the financial damage to the corporate balance sheet, sales are spread over different quarters.

17.2.2 STRATEGIC FOCUS

From 2010 onwards, the real estate department was finally up and running. Supporting the business was the primary task. FM adopted a pro-active approach. Cost reduction measures are already implemented by the real estate department every year: "About 75% of the real estate related costs are attributable to the total amount of square meters; as long as

we as real estate department keep on optimizing and lowering the total amount of square meters, our cost-base will drop and we will not be forced to further downsize our practices" (Hagedoorn 2013).

Although ING tries to make real estate a strategic practice, it is still often purely operational and financially driven. According to Hagedoorn (2013), the alignment between both elements is however not that easy. The size of the organization makes that there are many disciplines to manage and too many autonomous people to communicate with. Differentiation is made between the office and the retail portfolio.

17.2.2.1 Office portfolio

Efficiency drives the office portfolio. The primary task is to match supply and demand. There are three developments to keep in mind: (1) quantitative business developments: e.g. headcount, (2) centralization/decentralization programs and (3) qualitative working methods: e.g. HR Scrumm. These developments are incorporated in the five-year master plan. Based on the master plan, an annual plan is constructed. This requires FM to stay on top of the current and future demand by communicating with the business. Real estate transactions originate from the annual plan. New working concepts are implemented and managed regularly to provide added value to the business and facilitate activities.

FM managed to divest 53.000m² office space – in Amsterdam alone – by cutting (reduction FTEs), centralizing, introducing new office concepts and adapting to the business. The office space per employee has for instance decreased with 3m² per person. The target is 14m² LFA. "This optimization of the square meters is done by turning the two knobs: (1) office space (m²)/workspace and (2) flex-ratio" (Hagedoorn 2013). According to Hagedoorn (2013), LREM tries to lower the square meters such that the costs of all FM disciplines are immediately reduced: security, cleaning, energy, catering etc. With the current disposal of 53.000m², ING saves 28 million euros a year. Currently, the back-office is still shrinking. Due to technological developments, such as mobile applications, ING is able to further centralize the organization and decrease headcount. More square meters will follow: ING is currently heading towards a total of 208.000 m² of office space.

ING House, the headquarters of the ING Group between 2002 and 2012, has been left to Nationale-Nederlanden. The Management Board of ING Bank moved back into the former headquarters in Amsterdam South-East: the Amsterdamse Poort. ING was pleased to be able to dispose the ING House after all. Hagedoorn (2013): "The ING House – from a real estate perspective – is a disaster: for one, it is ridiculously expensive and second, selling the object would be financially unattractive: the market value is far below the book value" (Hagedoorn 2013). The public opinion will never allow a new comparable eye-catcher ever again.

17.2.2.2 Retail portfolio

The retail portfolio is more difficult to align. Decision-making concerning the retail portfolio is an open dialogue and together, the business unit and the real estate department should come to a favourable solution for the greater good. However, the business units have often dominated decision-making, such as during the integration of ING and Postbank: image, location and service outweigh real estate interests. Now, financials are leading again. ING put a hold on the acquisition of new locations; LREM is allowed to acquire a maximum of two new retail objects a year.

17.2.3 FINANCIALS

The financial consideration already changed after the 2001 – 2003 crisis. Hagedoorn (2013) knows ING was explicitly committed to dispose owned objects and increase the share of leased objects from 2004 onwards. An example is the sale-and-leaseback of the (current) headquarters Amsterdamse Poort in 2004. Hagedoorn (2013): "In that time, ING had enormous amounts of real estate on the balance; the sale-and-leaseback of the Amsterdamse Poort was intended to shorten the balance" (Hagedoorn 2013). In 2010, after the successful implementation of the new retail concept, ING put a hold on the acquisition of new locations. LREM is allowed to acquire a maximum of two new retail objects a year.

Although leasing is favoured over ownership, ING still owns a relatively large share of its real estate portfolio. For the office locations (HKs), the ratio lease – ownership is 49% - 51%; for retail shops and the regional offices (the MSH vehicle) the ratio is 55% - 45%. The ratio lease – ownership ratio originates from the former corporations that merged into ING Group. According to Hagedoorn (2013), the amount of owned property has decreased but this is

not always shown in the ratio: the total portfolio is shrinking and so is the amount of owned properties. Hagedoorn: “We are disposing rental contracts at the same time: rental contracts at their expiration date are very easy to get rid off. The pie is getting smaller and the ratio remains the same.” There is another reason why the lease – ownership ratio is changing very slowly: ING as a bank is able to finance their real estate relatively cheap: “To favour leasing over ownership, an owned property should be at least 40% vacant in order to make the business case profitable” (Hagedoorn 2013).

‘What is the effect of the credit crunch on the real estate strategy of a multinational corporation?’

The effect of the credit crunch on the real estate strategy and real estate activities of ING is big. The influence of the credit crunch is direct.

The credit crunch directly increased the need for a quick and efficient integration process between ING and Postbank, which was already initiated before the crisis had begun. Despite operational losses and a governmental capital injection, ING decided to proceed with the major investments. The impact on the real estate portfolio was enormous, but ING Real Estate had to stand by and watch. Vacancy levels have strongly risen whilst the real estate market does not allow those objects to be sold. ING Real Estate is constantly optimizing the portfolio, which primarily means lowering the square meters usage. It is therefor actively testing new working concepts. All implementations are shown in Table 19.

Theme	Impact credit crunch
Organization	Shift responsibilities to LREM and CREM.
Strategy	Proceed high-speed (high-costs) integration process: project ‘Tango’.
	Actively manage vacancy level (entire) portfolio.
	Gradually dispose owned portfolio: ‘kilo-knallers’.
	Full optimization square meters office portfolio: ‘turning the knobs’.
	Introduction new working concepts.

Table 19: Real Estate Implementations ING

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E. CASE STUDIES THEORY

By means of the theoretical framework, the case studies are reflected upon theory. The strategic developments of the corporations are classified and illustrated along the company-specific business results.

18 AHOLD

Real estate is a key element in the competitive position of Ahold and especially that of Albert Heijn. The link between corporate and real estate strategy is strong. Location, marketing and comfort determine success. The financial crisis has had little influence on Ahold. The dependence on economic conjuncture is little; the need for external financing is low. Although Ahold's business is geographically undiversified, this is not considered problematic.

How can the corporate strategy be classified?

In the 1990s, Ahold used a 'differentiation' strategy by pursuing regional diversification. Its driving force between 1993 and 2001 was purely 'size/growth'. The 2001 – 2003 crisis put an end to the international growth and forced Ahold to focus on its products and clients. This back to basics strategy is defined as 'cost leadership'. Ahold was able to change the customer perception and get market share back-up pre-crisis levels through the price war. Its driving forces between 2003 and 2006 were 'return/profit' and 'method of sale'.

1993 - 2001	2003 - 2006	2006 - 2010	2011 - 2012
International growth	Road to Recovery	Profitable growth	Reshaping Retail

Table 20: Corporate strategy Ahold, 1993 – 2012

The year 2006 was the turning point for Ahold. During the 'Profitable Growth' strategy, Ahold focused on improved products and services offering while simplifying the business and reducing the cost-base. The strategy is considered a 'focus: client' strategy for Ahold

invested in customer loyalty. Its driving forces between 2006 and 2010 were 'return/profit' and 'market needs'. Ahold introduced the 'Reshaping Retail' strategy early 2011. Ahold expanded its activities and services; it steered for growth again through new concepts and the entering of new markets, after a long period of consolidation. Ahold thereby went back to the 'differentiation' strategy, with a focus on product instead of regional differentiation. The desire to lower the cost-base has become an on-going process with the implementation of the 'Wheel of Retail'. Its driving forces from 2011 onwards were 'size/growth' and 'products offered', reflecting the expansion of its products and services. Ahold has thus been able to grow and expand during the recent crisis years, whilst most other corporations were forced to reorganize.

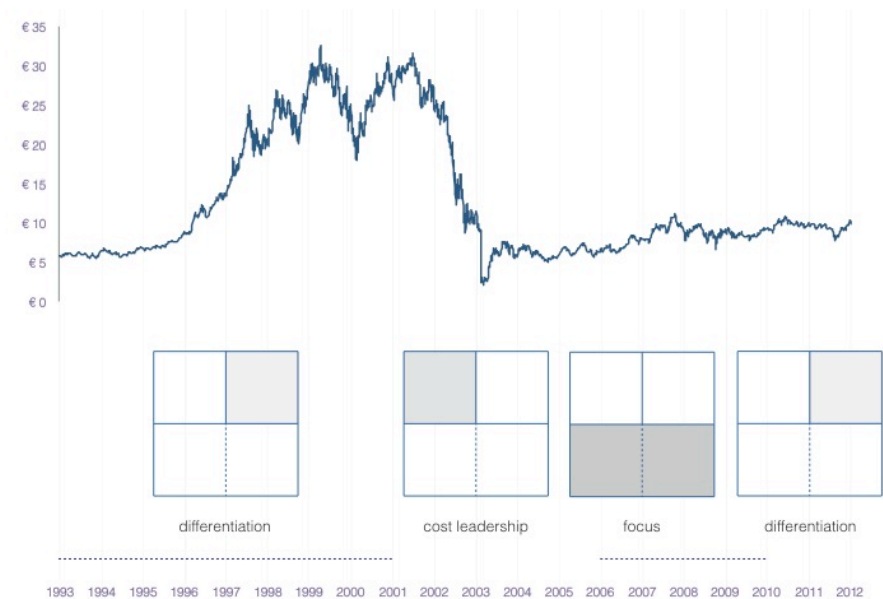


Figure 69: Porter generic strategies, Ahold 1993 – 2012

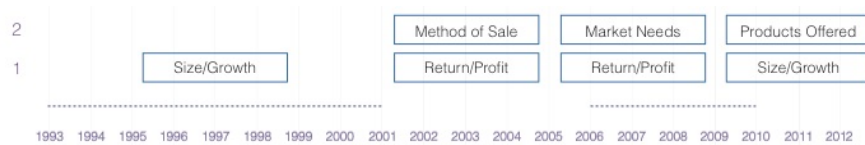


Figure 70: Driving Forces, Ahold 1993 – 2012

How can the corporation's attitude towards real estate be classified?

The Ahold real estate organization is very developed. In the early 1990s, Ahold Vastgoed was responsible for determining the locational strategy of all Ahold-subsiidiaries in the Netherlands. Ahold Vastgoed positioned itself as a real estate investor trying to obtain financial returns. The link with the business was lacking. The role of real estate until 1996 was re-active: 'taskmasters'.

The biggest change took place in 1996, when the organization became fully supportive to the business: a transformation from a real estate company into a service-facilitating subsidiary for the core business. The CREM department was in a constant dialogue with the Management Board (Kreijkes 2009). The role of real estate between 1996 and 2008 was pro-active: 'intrapreneurs'. In 2008, Albert Heijn Arena was set aside and Ahold introduced the Ahold Real Estate & Construction (RE&C) department. In contrast to previous real estate departments, RE&C combines '*ruwbouw*' and '*afbouw*'. RE&C gives meaning to the pillars designed by the business (Management Board) by constructing a five-year real estate strategy and setting own goals and objectives annually. The establishment of the real estate strategy is a combined effort between RE&C and the banners. The result is a common vision. RE&C does not ever, in any possible circumstance, adopt a leading role: considerations and decisions are purely strategic and in the best interest of the banners. The department also assists in non-core activities such as new business proposals. Real estate itself is no business strategy. According to Janssen (2013), the role of RE&C can be best described as a constraint to the business. The role of real estate after 2008 was pro-active strategic: 'business strategist'.

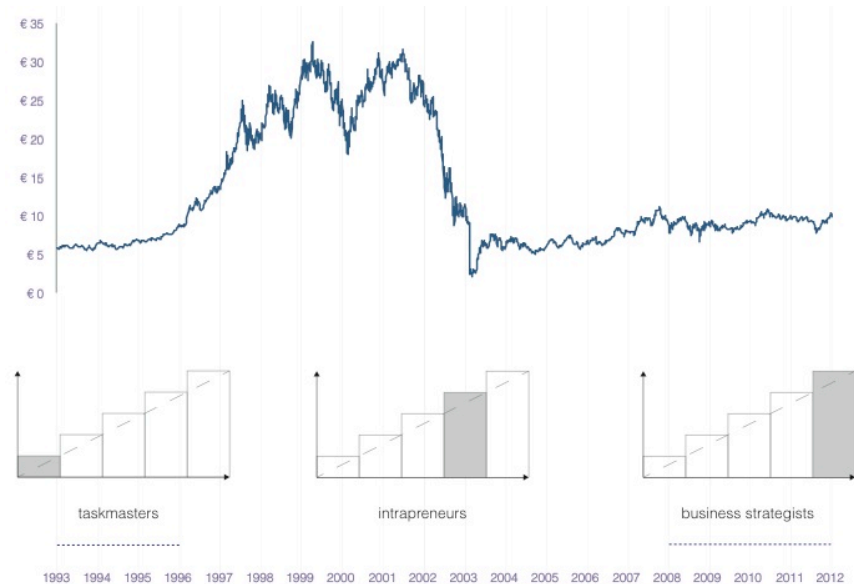


Figure 71: Joroff five evolutionary stages, Ahold 1993 – 2012

How can the real estate strategy be classified?

In the early years, in which Ahold Vastgoed positioned itself as a real estate investor, the perspective was 'rational-incremental'. Ahold enabled a strategic locational policy: location was priority number one. Ahold preferred to purchase its real estate to protect it against competitors taking-over the site. The location was of financial and operational value to the company. The portfolio was standardized: Ahold implemented the same retail concept in every portfolio object. International take-overs were managed according to the local habits. The real estate strategy can be classified as 'increase value'.

After the take-over by Kokkeel, Ahold Vastgoed designed a more detailed and improved real estate strategy: (1) deprived area strategy, (2) inner urban strategy, (3) vinex strategy and

(4) outer urban strategy. The portfolio adapted to changes in the retail and economic environment: Ahold adopted an 'incremental' perspective. During the crisis, Ahold was very clear about the real estate strategy. In their opinion, Ahold's real estate and locations were the most valuable aspects of the firm. Therefore, the most successful strategies – being the inner- and outer urban strategy – kept on going. The real estate strategy can be classified as 'increase productivity'.

After the 2001 – 2003 crisis and the accounting fraud, Ahold wanted to make a clean break. Ahold made extra investments in project development in order to acquire good retail locations and achieve the business objectives (Kreijkes 2009). The board had to be absolutely sure that Ahold would gain immediate profit out of the proposal in order to give approval. Ahold Real estate was actively exerted to underline the new strategy: moving the corporate headquarters from the city of Zaandam to the city of Amsterdam to set a new image. In this period, Ahold adopted a 'valuation-symbolic' perspective. The real estate strategies were 'promote marketing' and 'reduce risk'.

Once market share was back up, Ahold reorganized. With the 'Wheel of Retail' strategy, Ahold tried to make the retail square meters more (cost-)efficient. At the same time, shopping was made easier by improving the customer experience with new store formats and technology: more qualitative square meters. Ahold adopted an 'incremental' approach, trying to respond to "consumer trends and customer needs." The real estate strategies were 'reduce costs' and 'increase service delivery (productivity)'.

In 2010, Ahold focused on growth opportunities again. Real estate was of primary importance in the development and execution of these concepts. At the same time, Ahold continued to reduce costs and avoid unnecessary risks with the disposal of non-core real estate. The head-office was re-located back to Zaandam in 2012 for efficiency reasons; new ways of working was implemented. The approach was 'incremental'; the real estate strategies were 'reduce costs', 'reduce risk' and 'encourage innovation'.

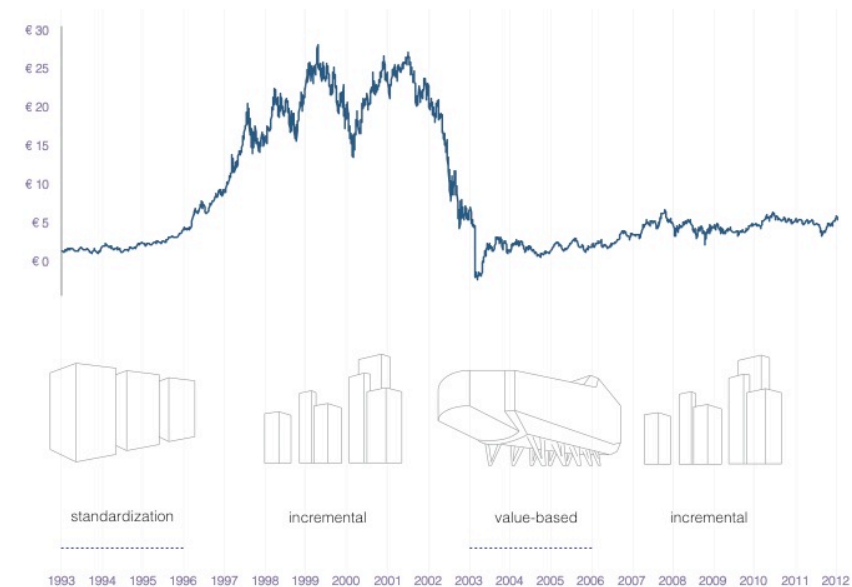


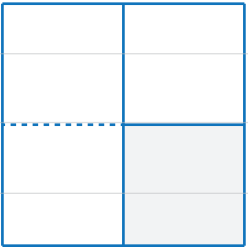
Figure 72: O'Mara generic strategies, Ahold 1993 – 2012



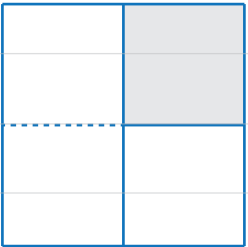
Figure 73: Real Estate Strategies, Ahold 1993 – 2012

CORPORATE STRATEGY

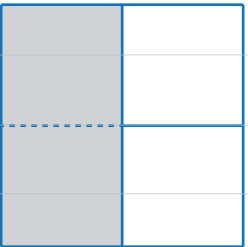
strategy



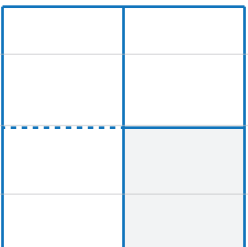
differentiation



cost leadership



focus



differentiation

driving forces

Size/Growth

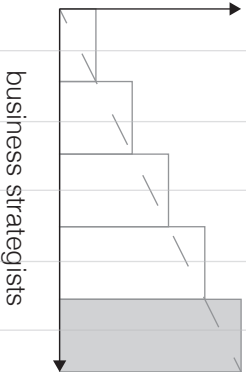
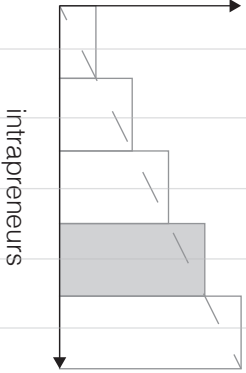
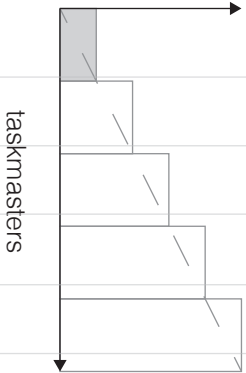
Method of Sale
Return/Profit

Market Needs
Return/Profit

Products Offered
Size/Growth

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

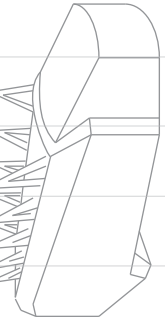
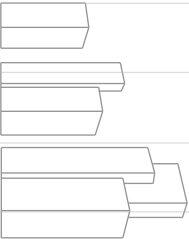
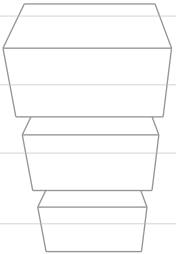
REAL ESTATE ORGANIZATION



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE STRATEGY

perspective



strategy

Increase value

Increase Productivity

Reduce Risk
Promote Marketing

Increase Productivity
Reduce Costs

Encourage Innovation
Reduce Risk
Reduce Costs

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

19 AKZONOBEL

The function of real estate is to facilitate the business units and the production processes. Written real estate strategies, formulated in advance of making real estate decisions, do not exist (Kreijkes 2009). AkzoNobel has been affected strongly by the credit crunch for the corporation has a high beta and is geographically still very much dependent on Europe.

How can the corporate strategy be classified?

AkzoNobel tries to be the best at what it does. AkzoNobel focuses on long-term market growth. AkzoNobel implemented a 'differentiation' strategy for many years: expanding and organically growing in multiple businesses in different markets. The strategy remained the same, although the accents changed: during crisis, growth stagnated and strategy became conservative. AkzoNobel used its technological expertise to be the best. Depending on the economic conjuncture, AkzoNobel focused on 'size/growth' or 'return/profit'.

1997 - 2007	2008 - 2010	2010 - 2011	2012 -
'More Dynamic Growth'	'Tomorrow's Answers Today'	'Value and Values'	'Leading market positions delivering leading performance'

Table 21: Corporate strategy AkzoNobel, 1993 - 2012

The 2007 crisis was different than others. Due to a major acquisition preceding the crisis, the usual restructuring and prioritizing programs were not sufficient. In the 'Leading market positions delivering leading performance' strategy, AkzoNobel forced itself to focus on three

specific business units and dispose activities in unprofitable markets. AkzoNobel launched two successive performance improvement programs to strengthen its competitiveness, enhance its ability to grow, simplify its support structures and reduce its cost base (AkzoNobel 2011). AkzoNobel thus defined business by 'return/profit' and 'products offered'.

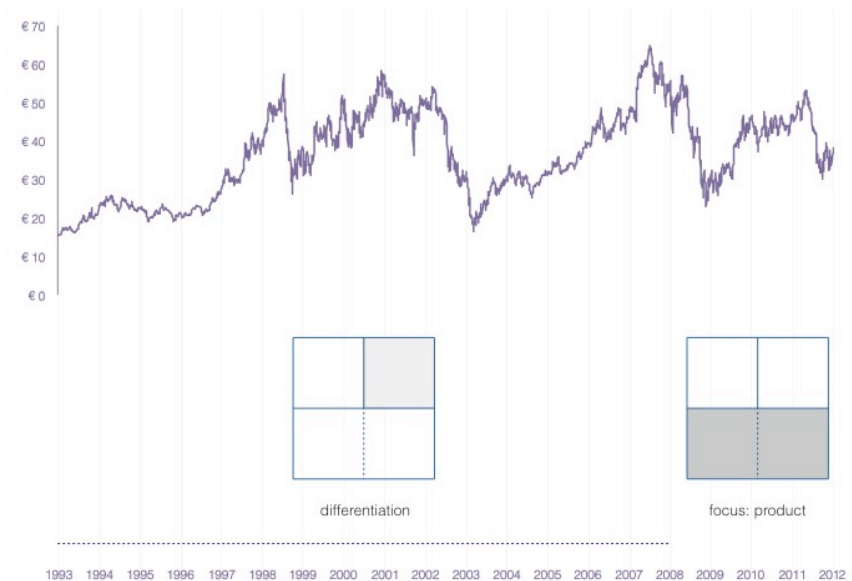


Figure 74: Porter generic strategies, AkzoNobel 1993 - 2012



Figure 75: Driving Forces, AkzoNobel 1993 - 2012

How can the corporation's attitude towards real estate be classified?

Real estate has always been the responsibility of the location manager. In the decision-making, business was leading. It has never been the objective to exploit the portfolio or the land. Real estate was solely used as means to an end. Corporate strategy is not considered. Neither was the portfolio aligned or was made use of long-term planning. The organizational attitude towards real estate was classified as 'taskmasters': a technical approach, only adopted to acquire and manage the portfolio.

After the installation of the real estate department, the real estate organization within AkzoNobel changed. Huitink and his team are trying to make the portfolio more (cost-) efficient and flexible. Besides, they are trying to structure the organization by introducing governance. This has created especially financial value for the organization on the short term. However, many of the implementations still have to show their value on the long-term. The attitude has therefor changed to 'controllers', i.e. an organization that primarily strives for cost reductions.

The next challenge is to align corporate and real estate strategy, becoming 'dealmakers' or even 'intrepreneurs'. Huitink: "You don't need strict regulation or the support of the Management Board to be part of the game, as other real estate professionals argue; you just need to show the added value and commitment of the department to the people you work with" (Huitink 2013).

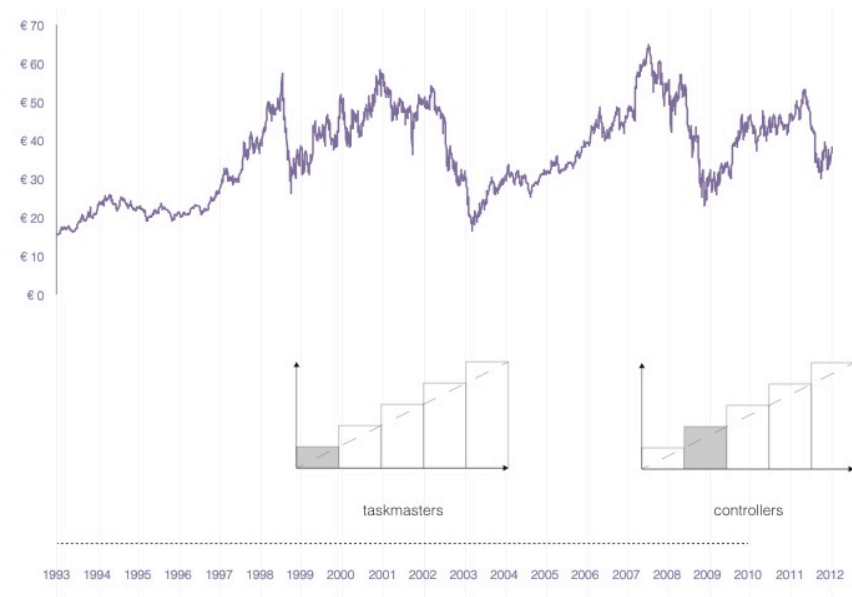


Figure 76: Joroff five evolutionary stages, AkzoNobel 1993 – 2012

How can the real estate strategy be classified?

The real estate strategy of AkzoNobel is straightforward: 'incremental'. The portfolio adapted to changes in the internal and external environment; responding to uncertainty. Real estate was used to support the technological processes. Following the alternative real estate strategies of Nourse and Roulac, who call it 'facilitate and control production, operations and service delivery', the strategy is classified as 'increase productivity'.

From 2010 onwards, the real estate portfolio is primarily used to 'reduce costs'. The real estate strategy also strives to 'increase flexibility' of the portfolio. The aim to 'support sustainability' is currently not (yet) represented in the real estate activities.

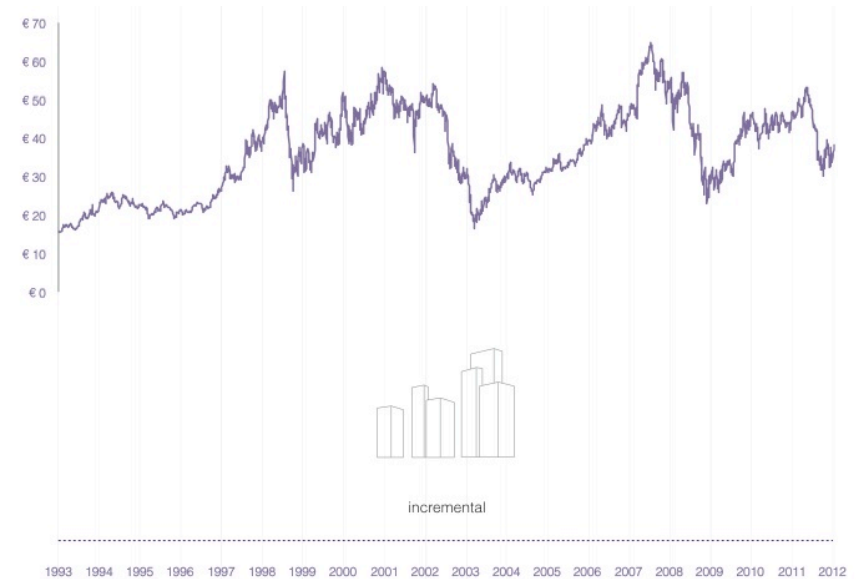
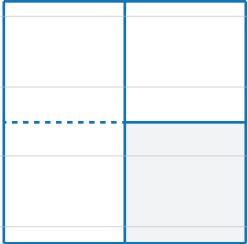


Figure 77: O'Mara generic strategies, AkzoNobel 1993 – 2012

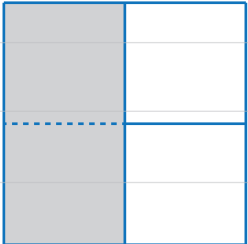


Figure 78: Real Estate Strategies, AkzoNobel 1993 – 2012

CORPORATE STRATEGY



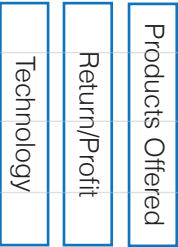
differentiation



focus: product

strategy

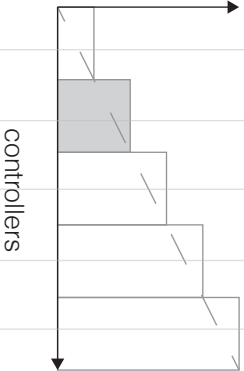
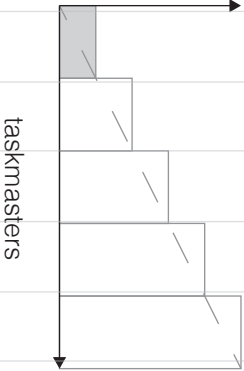
driving forces



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE ORGANIZATION

organization

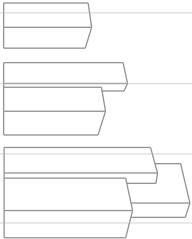


1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE STRATEGY

perspective

incremental



strategy



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

20 SHELL

The credit crunch has had only minor influence on Shell's business performance, in particular the downstream business, for it overall has a small beta, is geographically fully diversified and independent on external financing. Factors that do influence Shell's business performance are mainly social and political trends and/or developments. Real estate is of importance to Shell to be representational and attract knowledge workers. The corporate real estate department supports the business and makes sure the appropriate response to each business change is given. Shell Real Estate does not operate a formal real estate strategy.

How can the corporate strategy be classified?

Shell's corporate strategy is long-term, about 20 – 30 years, which is part of the nature of the oil industry. To illustrate: it takes an oil company about 5 – 10 years to decide on a new venture; that venture may continue to produce for 30 – 40 years.

1993 – 2003	2004 – 2012
Delivering bulk petrochemicals through simpler structures and at the lowest cost.	'More upstream, profitable downstream'

Table 22: Corporate strategy Shell, 1993 – 2012

The primary strategy of Shell is to produce chemicals and make profit. After repeatedly facing bad publicity in the 1990s, Shell has included sustainable development in its mission statement: "My colleagues and I are totally committed to a business strategy that generates

profits while contributing to the well-being of the planet and its people" (Royal Dutch / Shell Group 2000). Shell steers to be the biggest, to be innovative and to be controlling the entire supply chain. Shell provides premium products to the industry and consumers. Technological expertise lies at the basis of all Shell's activities. The strategy is classified as 'differentiation' with the driving force 'technology'.



Figure 79: Porter generic strategies, Shell 1993 – 2012



Figure 80: Driving Forces, Shell 1993 – 2012

Although the corporate strategy is not, or only limited, responsive to short-term market developments, the strategic accents have been altered over time. Shell has ordered two

major reorganizations as a response to economic downturn in 2002 and 2009, to keep the corporation healthy. Especially the downstream business has faced reorganizations and budget costs, trying to restore the profit: the driving force changed to 'return/profit'.

How can the corporation's attitude towards real estate be classified?

Shell Real Estate started of as a service department rather than a fully professional corporate real estate management department (Kreijkjes 2009). Over time, the organization and responsibilities have grown. Before the introduction of Shell Real Estate in 2000, the individual business units managed the real estate activities. The attitude towards real estate was 'taskmasters'. Near the end of the 1990s, the focus did increasingly go to efficiency. Since the introduction of Shell Works in 2008, Shell real estate is more and more trying to actively manage and align real estate activities with the business. However, Shell Real Estate practices are merely a response to changes in the corporate environment. The department ensures flexibility and a globally standardized working environment: 'dealmakers'.

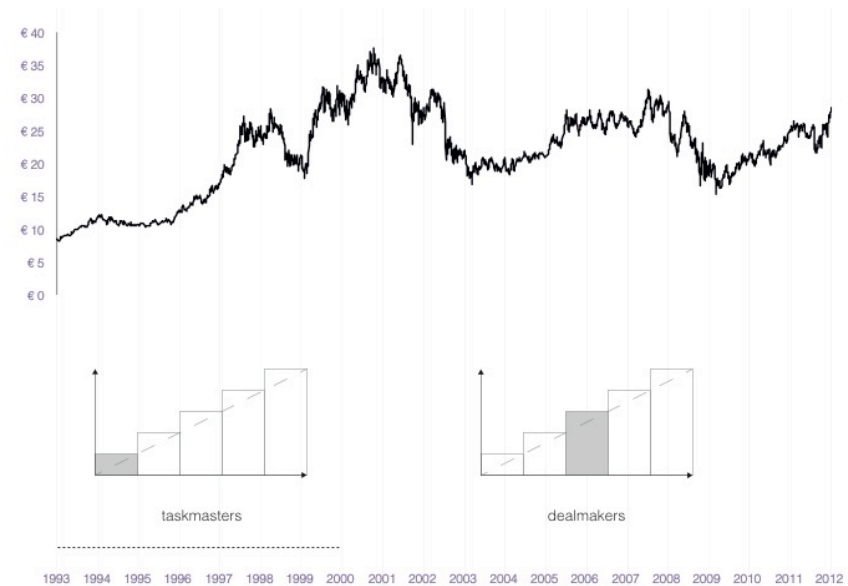


Figure 81: Joroff five evolutionary stages, Shell 1993 – 2012

How can the real estate strategy be classified?

With the introduction of Shell Real Estate, the real estate management shifted from a financial to a real estate perspective. After the 2000s, the corporate real estate strategy focused primarily on 'increasing flexibility' and 'increasing productivity'. Objects in ownership were gradually sold. Due to economic developments and globalization, it became problematic for Shell to attract and attain high qualified and educated employees. Shell changed its real estate perspective to promotion and marketing. The so called 'metamorphose' project of the corporate headquarters that started in 2002, was initiated to change the general location policy and to make the building, its operations and people more of a marketing and promotion object for the outside world (Diephuis 2009). The real estate

strategy changed gradually from 'increasing productivity' into 'increase satisfaction' (Kreijkes 2009). The renovation was finished in 2006.

The change in perspective was captured in the office concept Shells Works that was introduced in 2008. According to Shell, Shell Works would deliver substantial value to the business through improved attraction, recruitment and productivity of Shell staff. However, the reorganizations and budget costs following the financial crisis eventually struck the real estate department as well. The office concepts – first Shell Works, later Shell Connect – were more and more used as standardization tool, whilst Shell Real Estate was looking for 'cost reductions' after 2008. In a responsible way, Shell reduced costs for all kinds of real estate management related activities, like travel costs and catering costs (Diephuis 2009). The standards were gradually upgraded in all portfolio objects all over the world. Shell changed from a 'value-based' to a 'standardization' perspective, as long as all activities are at threshold level.

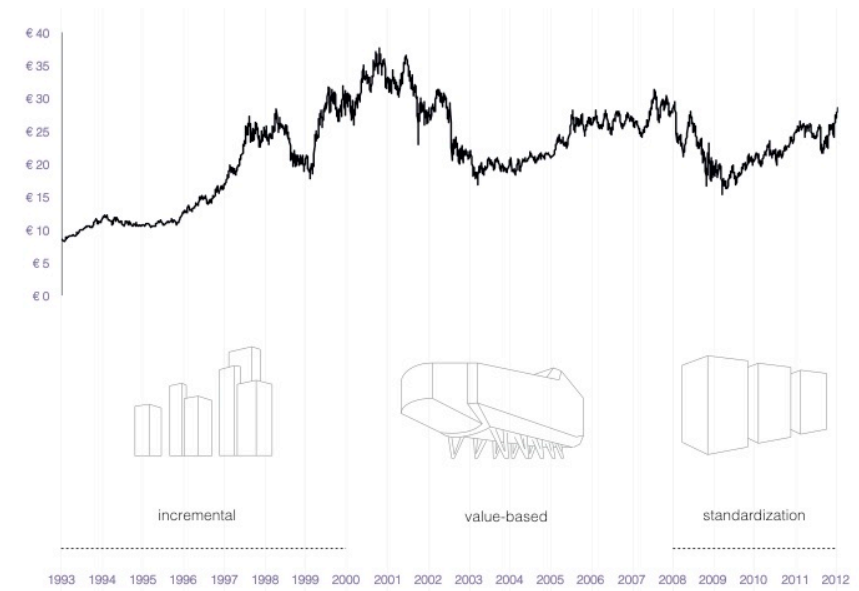


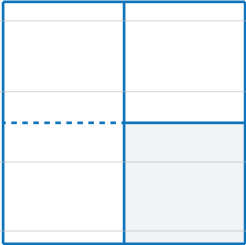
Figure 82: O'Mara generic strategies, Shell 1993 – 2012



Figure 83: Real Estate Strategies, Shell 1993 – 2012

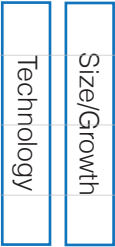
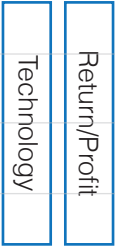
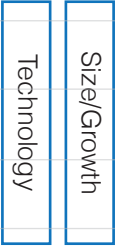
CORPORATE STRATEGY

strategy



differentiation

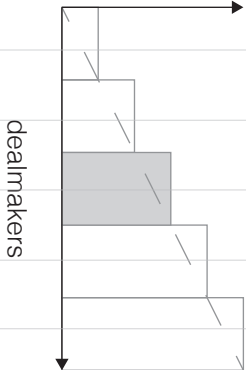
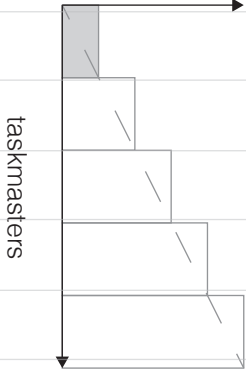
driving forces



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE ORGANIZATION

organization

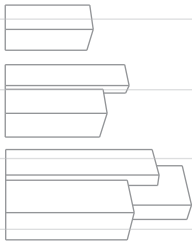


1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

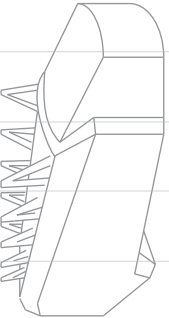
REAL ESTATE STRATEGY

perspective

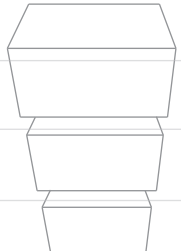
incremental



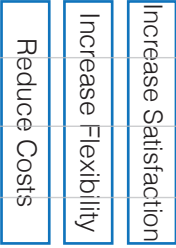
value-based



standardization



strategy



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

21

ABN AMRO

ABN AMRO has shown to be very sensitive to the financial crisis: the bank has a high beta coefficient, is geographically undiversified and is fully dependent on external financing. Real estate is important for the competitive position.

How can the corporate strategy be classified?

ABN AMRO tries to be unique in the banking sector. The image of the bank is associated with high-class service for high-class people. ABN AMRO for a long time used a 'differentiation' strategy: being a bank with a high-valued status, at the costs of a high cost base. 'Size/growth' was all that mattered. Now and then, ABN AMRO vigorously tried to lower the cost base with hard and effective measures, such as operation 'Zonder omwegen' in 2001. During these reorganizations, the driving force became 'return/profit'. In the early 2000s, the banking sector changed and so did ABN AMRO. It changed its retail concept, as many other banks did, to get closer to the customer: 'method of sale'.

1993 - 2001	2001 - 2005	2005 - 2007	2007	2009
International growth	Corporate Restructuring	'Making more possible'.	Take-over consortium.	Nationalization: merger.

Table 23: Corporate strategy ABN AMRO, 1993 – 2012

The impact of the credit crunch and the nationalization of the bank have required ABN AMRO to tread water and focus more on the client. The image had to be changed. ABN AMRO adopted a 'focus: client' strategy to change the consumer perception. The bank is

trying to become healthy; major cost reductions are implemented: 'return/profit'. Products are now more adapted to client preferences, also to be able to compete with other banks: 'market needs'.



Figure 84: Porter generic strategies, ABN AMRO 1993 – 2012



Figure 85: Driving Forces, ABN AMRO 1993 – 2012

How can the corporation's attitude towards real estate be classified?

For a very long time, all ABN AMRO business units disposed of an own real estate department. There was no real estate strategy. Now and then, individual business units used real estate to get a return on investment and strengthen the business unit's balance. The organization is classified as 'taskmasters'. From 2002 onwards, the global management of corporate real estate was divided into the different home markets of ABN AMRO. The corporate real estate of the remaining countries was managed by the Global Real Estate department (Singer 2005). The line management structure of the business units was overseen by Group Real Estate, responsible for univocal policy on the one hand, and to the mutual exchange of best practices on the other (Singer 2005). ABN AMRO real estate entered the second stage: 'controllers', trying to share information and focus on costs.

After the merger with Fortis Bank Nederland, ABN AMRO centralized the real estate department in the operations department of the bank. It is divided into a facility management and a real estate department. However, decision-making is still a get-together between the specific business unit and the real estate department. The real estate department takes responsibility of long-term interests such as the contractual obligations; the business units keep in mind the commercial interests. The transition team adopted a new role: 'dealmakers'. The office portfolio became standardized and real estate was used to reduce costs, centralize activities and make the working place more flexible. An official real estate strategy is still lacking; the business is always leading.

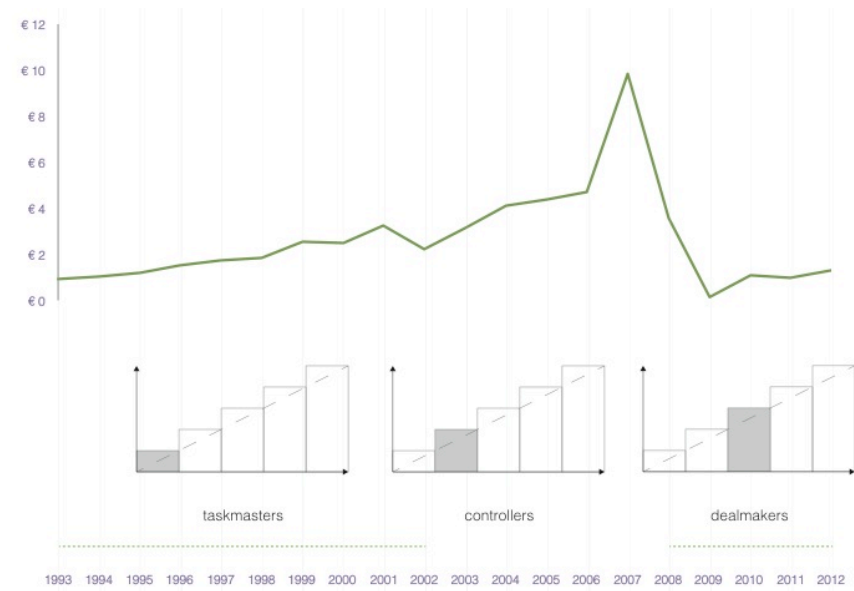


Figure 86: Joroff five evolutionary stages, ABN AMRO 1993 – 2012

How can the real estate strategy be classified?

The real estate activities of ABN AMRO in the 1990s are classified as 'incremental'. Back-offices were dispersed among the country; there was no centralized decision-making. Acquisition and planning of new projects were undertaken one at a time. In her theory, O'Mara explains the three reasons to pursue incremental real estate and facility management strategies; at that time, two were applicable to ABN AMRO because of the strong growth: (1) an inability to forecast space requirements based on uncertain product demand in the future and (2) a lack of management time to plan and make decisions during periods of high growth and rapid change. Some business units even tried to make quick money with real estate transactions: 'increase value'.

The perspective remained 'incremental', but along with the operation '*Zonder omwegen*' in 2001, the short-term real estate strategies changed: during the reorganization process, in which over 250 bank shops were closed, the real estate strategies were 'reduce costs' and 'increase flexibility'.

The rise of digital money marked the change of the strategic perspective of ABN AMRO. With the introduction of the bank shops, the strategy became 'value-based'. The construction of the headquarters at the Amsterdam South-axis was characteristic for the office portfolio. The value-based strategy supported marketing goals: the real estate portfolio responded to an increasing demand for service-oriented office space (Singer 2005). ABN AMRO valued the positioning along important walking routes in retail areas and the interior design of the offices to seduce customers into buying products and services. This is a proven way of adding value to the organization, according to Lindholm: "Real estate can contribute to the marketing and sales strategies through site selection and physical design: accessibility and visibility are keys to attracting customers and increasing revenues" (Wurde mann 2012). The real estate strategies were 'promote marketing' and 'increase service delivery (productivity)'.

The transition team had to rapidly integrate and transform both the retail- and office portfolio after the nationalization. Retail shops were relocated and furnished; offices were centralized and new working concepts were introduced. Although the market was uncertain, the decisions were made for the entire portfolio and regarding long-term planning. The adopted approach was 'incremental', but the portfolio was standardized as much as possible. With this 'standardization' perspective, ABN AMRO attempted to control and coordinate facility design and real estate operations across the entire organization: standards were set centrally and applied throughout the company. The combined approach made it possible to control costs and behaviour. The main driving force was to 'reduce costs', but the new office concepts had to 'increase satisfaction' and 'increase flexibility' as well. For the new image of ABN AMRO and Fortis Bank Nederland had to communicated to the public, it was also important to 'promote marketing' with the real estate portfolio.

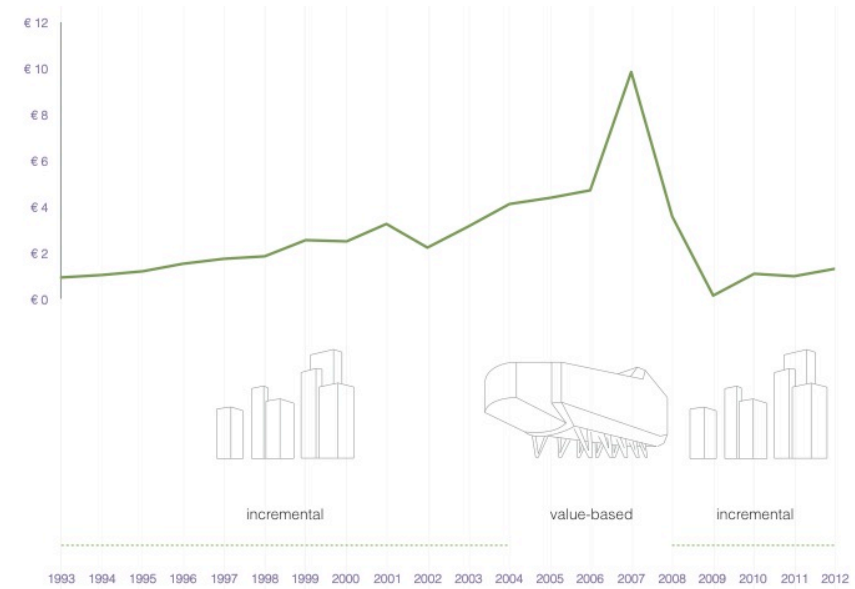


Figure 87: O'Mara generic strategies, ABN AMRO 1993 – 2012

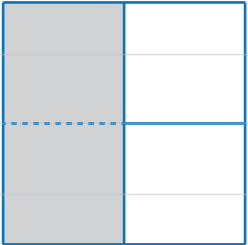


Figure 88: Real Estate Strategies, AB AMRO 1993 – 2012

CORPORATE STRATEGY



differentiation



focus: client

strategy

driving forces

Size/Growth

Return/Profit

Method of Sale

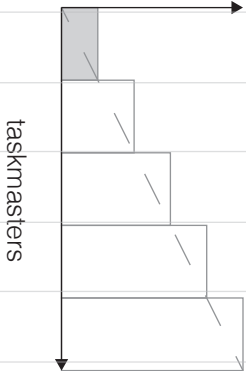
Return/Profit

Market Needs

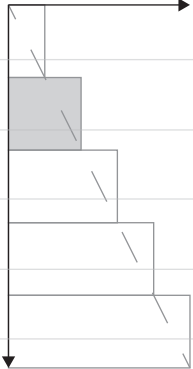
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE ORGANIZATION

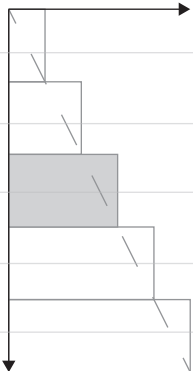
organization



taskmasters



controllers

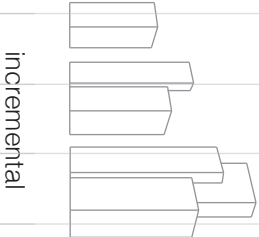


dealmakers

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE STRATEGY

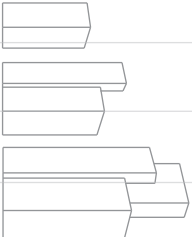
perspective



incremental



value-based



incremental

strategy

Increase value

Reduce Costs

Increase Flexibility

Increase Productivity

Reduce Costs

Increase Flexibility

Promote Marketing

Increase Satisfaction

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

22 ING

The credit crunch has turned the ING Group upside down. The high beta and full dependence on external financing has led to a governmental capital injection. ING Group has split off the insurance activities. ING Bank is still internationally active. The operational results have recovered and are relatively good; real estate has shown to be an important element for the ING business.

How can the corporate strategy be classified?

ING's corporate strategy has, for a very long time, been: growth. That is both organic growth and growth through mergers and acquisitions. ING offered a range of products in order to reach as many potential customers as possible. After the 2001 recession, ING stated to have focused more on the needs of the customer by improving the performance of the service. The objectives might have slightly changed in order to adapt to the changing social and economic circumstances, but the main strategy remained the same: 'differentiation'. The driving forces during the recession were 'return/profit, thereby focussing on making the business healthier, and 'market needs', looking after the specific demand of the customers. After the recession, ING continued to look after the 'market needs', but carefully steered for growth again.

1993 - 2000	2000 - 2007	2008 - 2012
International Recognition	Customer Performance	Back to Basics: Corporate Restructuring

Table 24: Corporate Strategy ING, 1993 – 2012

The crisis marked a major change. The battle for consumer confidence was fought with a 'focus' strategy. Focus on both the product and the customer. ING called it 'Back to Basics'. All necessary resources were applied to keep the business up and running. Important was the driving force 'method of sale', which represented the corporation's efforts to get closer to the customer. As a consequence of the capital injection, the insurance products were disposed.



Figure 89: Porter generic strategies, ING 1993 – 2012



Figure 90: Driving Forces, ING 1993 – 2012

How can the corporation's attitude towards real estate be classified?

Corporate real estate management has been represented in the ING corporation for many years now. However, after the merger into ING Real Estate in 1995, the link with the business was still lacking. ING Real Estate spent its time on development, financing and asset management. Activities regarding the own portfolio were primarily focused on cost control: 'controllers'. And it still is, despite the fact that the CREM discipline within ING is strongly developed.

ING Real Estate tries to follow the business; alignment is currently one step to far. The business units are still too dominant to make real estate count within the entire organization. Since the real estate organization changed in 2008, ING Real Estate is working on becoming more determinative. Primary activities are enabling efficiency and cost reduction measures: 'dealmakers'.



Figure 91: Joroff five evolutionary stages, ING 1993 – 2012

How can the real estate strategy be classified?

In the 1990s, during the growth years, the real estate strategy was 'incremental'. There was no cooperation between ING Real Estate and the business, neither between CREM and FM. Real estate was used as an investment and marketing tool. The real estate strategy truly became 'value-based' during the recession in the early 2000s, illustrated by the Alberts and van Huut bank shops and the headquarters: the ING House. This mainly concerned front offices. Back-offices were managed tightly in order to be efficient, especially after the reorganization of the real estate department in 2004. Corporate real estate at that time was seen as a mean of production. The real estate strategy was focused on increasing the productivity and supporting the primary activities the best way possible (Diephuis 2009). The emphasis became more on efficiency, with cost reductions as a result.

During the crisis years, ING even more used real estate to propagate and strengthen the corporate image. A 'value-based' strategy was used for the integration of the bank shops: 'promote marketing'. However, the overall portfolio was managed ad-hoc, with a short-term view and a focus on efficiency: 'incremental'. Once the integration process was finished, LREM constantly worked on increasing flexibility, productivity and satisfaction by 'turning the knobs' and with new working concepts, whilst reducing costs through downsizing.



Figure 92: O'Mara generic strategies, ING 1993 – 2012

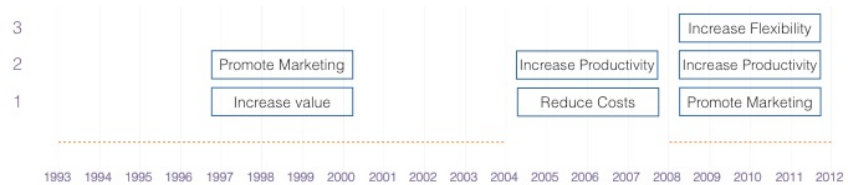
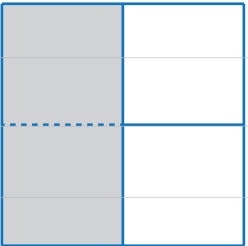
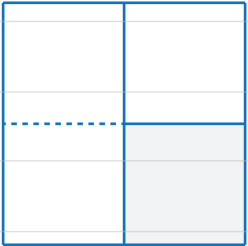


Figure 93: Real Estate Strategies, ING 1993 – 2012

CORPORATE STRATEGY

strategy



differentiation

focus

driving forces

Size/Growth

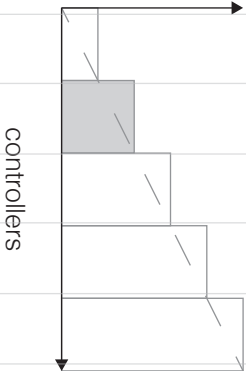
Market Needs
Return/Profit

Market Needs
Size/Growth

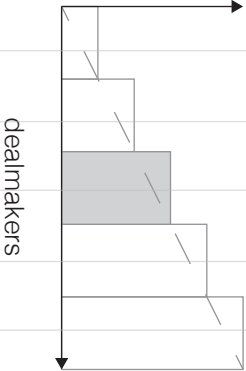
Products Offered
Method of Sale
Return/Profit

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

organization



controllers



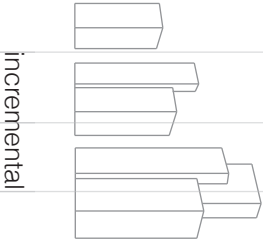
dealmakers

REAL ESTATE ORGANIZATION

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

REAL ESTATE STRATEGY

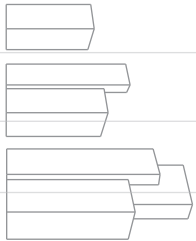
perspective



incremental



value-based



incremental

strategy

Promote Marketing
Increase value

Increase Productivity
Reduce Costs

Increase Flexibility
Increase Productivity
Promote Marketing

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

F. SYNTHESIS

By identifying similarities and differences between case studies, further insight is provided into the effect of the credit crunch on real estate strategies of multinational corporations.

23

CROSS-CASE COMPARISON

In this cross-case comparison, the case studies are laid side-by-side to reflect on both similarities and particularities. The comparison handles both the practical and theoretical response of the case studies corporations to the credit crunch. An overview of the real estate implementations is presented. All findings are referenced with former research.

23.1 CORPORATE RESPONSE

"In times of recession, unemployment rises, credit becomes less available, consumers are unwilling to spend and competitors engage in price-cutting and other desperate moves to produce sales" (Pearce and Michael 2006). The corporate response to economic recession has been repeatedly analysed in the past. In their publication 'Strategies to prevent economic recessions from causing business failure', Pearce and Michael conclude that investments are put on hold: "Businesses cut back on spending to conserve cash, particularly on investment spending that can be deferred or delayed" (Pearce and Michael 2006). Michael and Robbins (1998) confirmed this statement: "For the firm confronting severely declining performance, restoring profitability and stabilizing operations almost always entail pursuing strict cost reduction measures followed by a shrinking back to those segments of the business that have the most likely prospects of good margins" (Michael and Robbins 1998). Other possible strategic responses to economic downturn, besides retrenchment, are to alter the scope of the firm, to divest a strategic business unit or to diversify into a more stable business (Michael and Robbins 1998).

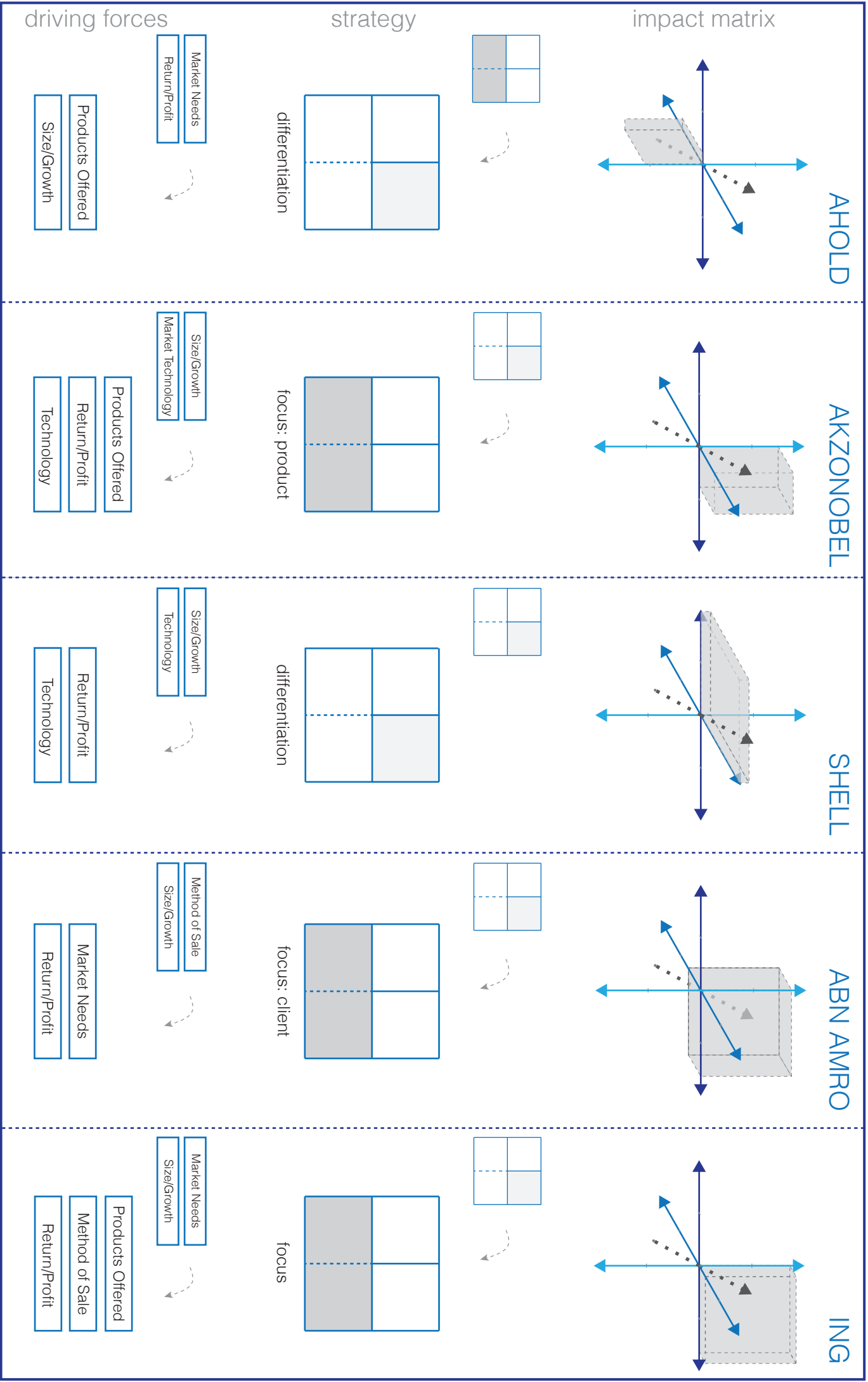
Gibler and Lindholm (2011) appoint three possible strategic responses to an economic recession: (1) a cost reduction approach, (2) an innovation approach and (3) a combination

of these strategies. The cost reduction approach can be implemented through the cutting of costs on employee expenditures (human resources), raw materials, inventory, advertising (marketing) and research & development (Gibler and Lindholm 2011). The innovation approach consists of three steps: investing, innovating and diversifying. Although it leads to higher costs (investment) on the short-run, firms will be able to be ready to respond quickly when economic recovery comes. The recession is used as opportunity to achieve or extend competitive advantage. The third possible response to an economic recession is a combination of the cost reduction approach and investment. This is considered the most balanced and ideal option. A corporation then chooses to reduce costs – to improve efficiency – while investing in innovations to expand sales, profits and/or market share.

The case studies demonstrate that there are two completely contradicting responses towards the credit crunch, corresponding with the research of Michael and Robbins (1998) and Gibler and Lindholm (2011). Those corporations that are hit the hardest by the credit crunch – AkzoNobel, ABN AMRO and ING – adopt a (1) conservative approach. Declining revenues and increasing costs forces them to set aside growth ambitions and focus on profitable operations. All have switched from a 'differentiation' strategy to a 'focus' strategy. Those corporations that have shown to be relatively impervious to the recession use the credit crunch to (2) increase competitive advantage. The economic context gives sufficient them opportunities to.

With a focus strategy – on product and/or client – the 'hurt' corporations intend to exploit the 'healthy' business units (Michael and Robbins 1998). This requires the corporations to reorganize. AkzoNobel experienced clearly a drop in demand. AkzoNobel's cash flow has been negative for multiple consecutive terms; there was no capital to invest in unprofitable operations. Consequently, AkzoNobel explicitly shrunk the business to those segments (units) that had the most likely prospects of good margins, i.e. those segments in which AkzoNobel could obtain a leading position. This is possible because of their technological expertise.

ABN AMRO and ING both altered the scope of the firm by divesting strategic business units and diversifying into a more stable business. Their dependence on external financing forced them to. Governmental institutions provided them with capital injections and thereby



imposed reorganizations: ABN AMRO went through a nationalization process and was forced to focus on the Dutch market, whilst ING was ordered to dispose all insurance activities. The credit crunch required the banks to change its driving forces, for the confidence in the financial sector strongly decreased. The 'method of sale' became increasingly important. But at the basis of the reorganizations laid the drive to lower the cost base on all levels of the organization. Unlike AkzoNobel and ABN AMRO, ING did combine the cost reduction approach with investments in the retail concept. Thereby, ING innovated to expand sales and keep up market share. This was possible because despite the necessary governmental capital injections, ING's operational results were never that bad.

Ahold and Shell have not or only slightly been affected by the credit crunch. During the crisis, they were able to adopt a combined cost reduction and innovation approach, as described by Gibler and Lindholm (2011), although the implementation and output of these methods differed per corporation. Ahold combined a strict cost reduction program ('Wheel of Retail') with investments in the customer, the products and the geographic diversification: they immediately invested cost savings in the business again. With the acquisition of Bol.com, the international expansion in Belgium and the introduction of the PUP-concept, the economic downturn was used as an opportunity to achieve and extend competitive advantage. This was possible because Ahold had already strengthened its market position before the credit crunch by a customer focused strategy. The FMCG sector is highly sensitive to consumer trends, which makes strategy making short-term. The oil industry, in which Shell is active, is static: strategy making only suits for the long-term. Shell did therefore not change its long-term strategy; only its strategic accents. Shell has focused on the cost competitiveness of the downstream business, while keeping up investments in research and development (R&D) for the upstream business. The underlying driving force during the crisis has thus been to keep up profitability, whilst the long-term strategy remained to innovate and grow.

What is the common response of the corporate strategy to the credit crunch?

Ahold and Shell respond to the credit crunch the way their sector compels them to. Ahold acts strongly incremental: quick and responsive to economic and social trends; Shell acts

strongly standardized: remain stable and focus on the long-term. The impact of the credit crunch on the AkzoNobel, ABN AMRO and ING business has been stronger than expected, forcing them to respond much more radical than experienced before. In the past, they would have sufficed with corporate reorganizations.

The research shows that those corporations that are affected the strongest by the economic downturn react by retrenchment. They try to restore profitability as quickly as possible by major and direct interventions. Those corporations whose profitability is affected, but are in a position to keep calm, use the crisis to innovate and come out stronger. According to Tubbs (2007) competitive advantage can be gained by increasing R&D at the start of a recession or downturn when competitors may be decreasing R&D; this boosts the relative advantage of the company's products and services and hence leads to increased sales and market capitalization in the subsequent upturn (Tubbs 2007). Gibler and Lindholm (2011) argue: "Some firms retrench, cut costs and divest of assets to ensure survival at the risk of reducing capacity to such a degree that competitiveness may be hampered when recovery comes."

Although it seems obvious, it is interesting to notice that those corporations that are strongly suffering during economic downturn, decide to – are forced to – reduce costs instead of invest capital, whilst theory tells them otherwise. It is too soon to tell whether or not the cost reduction strategy will pay off.

23.2 REAL ESTATE ORGANIZATION

Real estate decisions have direct financial impact on corporate performance as well as indirect impact through accommodating core business activities. Both corporate managers and real estate managers are forced to consider real estate from a strategic, as well as a financial perspective (Buijssen 2000). However, real estate property is still often seen essentially as a factor of production, rather than an asset used in a more strategic manner. Research has shown that 75% - 85% - (Heywood 2008; Roulac et al. 2005; Acoba and Foster 2002; McDonagh and Nichols 2009) of the global corporations has either a formal real estate strategy, or at least references regarding real estate in their corporate mission and objectives.

Four out of five case studies corporations operated a real estate department before the credit crunch; after the credit crunch, all five did. Four of these five corporations have changed, or have been forced to change, the real estate organization under influence of the credit crunch. This resulted in the upgrading of the attitude towards real estate to a more pro-active strategic role. Only Shell did not change its organizational structure at all.

For both AkzoNobel and ABN AMRO, these changes have been the direct result of the impact of the credit crunch: a re-active change. ABN AMRO installed the 'Transition Team' in 2009 after the nationalization by the Dutch state, which required ABN AMRO and Fortis Bank Nederland to quickly and efficiently integrate back- and front offices. After the team managed to successfully integrate both banks, the real estate organization was put back into place. AkzoNobel initiated the first real estate department in 2010, after the awareness was created that central real estate management could result in one-off and structural cost savings, contributing to the improvement of the company's performance and deliver €500 million EBITDA.

Ahold and ING restructured the real estate organization to stimulate improved collaboration and output of the real estate department in the future. Ahold prepared for growth with the pro-active initiation of the RE&C department in 2008. Ahold created economies of scale and increased efficiency. Fewer employees were given more responsibilities. Ahold thereby upgraded the organization to 'business strategists'. ING reorganized the CREM department in 2008: it reacted to long-lasting inefficiencies in the organization and tried to create more cohesion between CREM and FM by reorganizing and re-placing them. The newly founded organization was in its infancy during the major portfolio integration process and did not get the responsibility to strongly influence the decision-making process.

Does the credit crunch bring about organizational change?

The credit crunch did bring about change in the organizational structure of the corporations: it 'upgraded' the existing real estate management practices of the corporations. However, the case studies show that their impact on the business is still limited. The credit crunch

seems to make corporations aware of the opportunities to reduce costs of (and with) real estate; not so much aware of other added values. Apart from Ahold, the corporations adopt the role of 'dealmakers'. This means that the corporate real estate departments reduce risk by creating flexibility and reduce costs by creating portfolio efficiency. AkzoNobel is still catching up. Although costs are clearly leading to support the corporate objectives, the proposed governance will make sure that AkzoNobel real estate will adopt a 'dealmakers' role in the nearby future.

ING even has the potential to grow to a more developed role. Its real estate department is already well organized. However, the business has withheld ING Real Estate from achieving this by not giving them full responsibility of the customer-based portfolio, partly because the department was still in its infancy at the time of the integration. Would the department have been more developed, they might have been able to lead and steer the integration process and accomplish more real estate objectives. Ahold did present the RE&C department these responsibilities, which made it possible to add (more) value to the organization in addition to reducing costs.

23.3 REAL ESTATE RESPONSE

"Firms may exploit their corporate real estate resources to contribute to creating and sustaining competitive advantage, just as they manage their human and financial resources in support of these pursuits" (Gibler and Lindholm 2011). In 2000, an international survey among corporate real estate managers indicated the three most pursued real estate objectives to be: (1) meeting workplace needs of business growth, (2) meeting individual needs of business operating decisions and (3) minimising the operating expense of the portfolio (Gibler, Black et al. 2002). In their research, Roulac et al. (2005) observed the primary aim of property to be – according to 77% of the respondents – to provide an appropriate working environment for the least overall cost (Roulac, Adair et al. 2005). Today, authors agree upon the assumption that cost reduction – reducing real estate related costs – is still the most important strategy.

The theory thus presumes that the vast amount of corporate real estate managers seems to always steer for efficiency and lower costs, regardless the economic situation. When faced

by economic downturn, corporations are expected to steer for cost savings even more. The case studies corporations demonstrate that this is not always the case. AkzoNobel and ABN AMRO tried to not only reduce housing costs by increasing flexibility and productivity, but also tried to make quick money by disposing (selling) owned objects. The incremental approach adopted by Ahold is attributable to the uncertainty that comes with the changing retail market and the implementation of new retail concepts. The cost reduction strategy is pursued to encourage innovation. ING adapts its portfolio incrementally to follow the retail business. Productivity measures in the office portfolio are an on-going process. Shell standardizes its portfolio to deliver the best workplace solutions to its employees.

23.3.1 STRUCTURAL COST SAVINGS

The credit crunch has stimulated all corporations to take a good look at their portfolio. Some do this to reduce costs, others to reduce risks and most to reduce both. Structural cost savings are primarily achieved by portfolio reorganization and by taking advantage of the real estate market.

23.3.1.1 Portfolio reorganization

Ahold started its portfolio reorganization process already in 2006 to remain competitive, contribute to the customer loyalty objectives and respond to sector (customer) trends. AkzoNobel reorganized the portfolio with the objective to map the portfolio and find easy cost savings. The portfolio reorganizations of ABN AMRO and ING were a consequence of the integration process. Both reorganized their retail as well as their office portfolio. Shell reorganized following its external benchmarking method: remain competitive by matching market developments. Most corporate competitors have reacted much more strongly to the credit crunch than Shell has; Shell primarily forced itself to reduce costs because others do.

Part of reorganizing is cleaning the portfolio, for instance by disposing unused property. In the case of Ahold, this concerns non-core real estate to reduce risk. Non-core real estate or side-catches are secondary real estate objects that come with the targeted retail object, such as apartments on top of the store. This risk reducing measure is incorporated in the future decision-making process. In the case of ABN AMRO, cleaning the portfolio means resolving hidden office vacancy, which has come to light after merging offices, and sitting out lease contracts. The reorganization was dominated by a technical approach. Step-by-

step, ABN AMRO moved employees from one office to another. This gradually reduced the number of square meters of office space until all employees were re-located and merged into new offices. Opposite to ABN AMRO, ING created additional vacancy by immediately centralizing the activities into new real estate objects, thereby leaving numerous, mainly regional, shops and offices vacant. The real estate market did not allow those objects to be sold. ABN AMRO steered on budget cuts and efficiency with the philosophy *'eerst draaien, dan verfraaien'*; ING steered on speed and marketing. ABN AMRO was able to gain structural cost savings of 220 million euros per year, whilst ING chose to first invest during the integration process, before caring about cost reduction measures. The ING Real Estate team is currently pro-actively looking for ways to reduce costs and dispose un-used property. After the split, ING Real Estate managed to renounce the corporate headquarters at the Amsterdam South-axis and leave it to the Nationale-Nederlanden.

23.3.1.2 Dispose lease contracts

The easiest way to dispose properties in the current market is the disposal of lease contracts, preferably at the end of their expiration date. This requires pro-active asset management. All corporations have disposed lease contracts if possible. When locked into a lease, one option is to buy off the contract; the other option is to sit out the contract. Shell and ING chose to make un-used property empty and wait for the lease to expire. An unoccupied building is always cheaper to run than an occupied building. AkzoNobel and Ahold have only moved out of a building if the lease would shortly expire, which was the case with the former Ahold headquarters in Amsterdam.

Because ABN AMRO was not in the position to spend unnecessary money, the Transition Team moved employees from one office to another, only leaving the building when its contract would shortly expire. However, because the reduction of FTEs by the management did not go as planned, a lot of properties could not be closed on time: leases had to be extended for short periods of time.

23.3.1.3 Renegotiate lease contracts

The credit crunch has had a direct and an indirect influence on the local real estate market. The burst of the real estate bubble has strongly decreased property value in the Netherlands, on a scale only seen in the United States and Spain; not only in the housing market. Besides that, due to the recession, unemployment has risen. Demand has strongly

dropped and new supply of real estate objects has been put on hold. The market is creating a new equilibrium. The real estate market has created opportunities as well as negative consequences.

AkzoNobel and Shell have made use of the deteriorating real estate market by renegotiating existing lease contracts. This has been possible in those markets that were hit by the credit crunch, especially in Western Europe and Northern America. The contract negotiations first involved rental price, but also resulted in capital allowances and/or rent-free periods. The downside of the renewed contract deals is that the rental period is fixed for a longer period, thereby decreasing flexibility, which might be risky when faced with new and stronger recessions in the future.

Demanding parties on the property market thus take advantage of the market situation. Ahold, ABN AMRO and ING have been able to make use of the deteriorating real estate market with the acquisition of new properties.

23.3.1.4 Governance

To invigorate the reorganization process within AkzoNobel, the real estate department designed corporate governance. These guidelines are intended to guide and assist local real estate managers in their management activities. They make sure there is uniformity in space and quality, all over the world. The guidelines concern among others acquisition protocols, catering quality standards and flex ratios. Shell has implemented these guidelines already years ago – which eventually were transformed into Shell Works and later Shell Connect – but is still innovating and updating them. Shell's guidelines focus on workplace standards. With the governance, the corporations can control their enormous geographically dispersed portfolios the best way possible. It eventually reduces unnecessary costs. The implementation of the governance has gone hand in hand with the introduction of new working concepts.

Ahold only strictly implements guidelines for its own shops; the portfolio of international take-overs is managed by local preferences. ING and ABN are involved in the decision-making process, but leave many decisions to the business unit.

23.3.2 QUICK WINS

Demanding parties have taken advantage of the real estate market, which consequently means that suppliers have been suffering. Ahold, Shell and ING all have put a hold on disposals of property in ownership. They wait for better times. Ahold and Shell are lucky to have disposed the major part of their owned portfolio before the deterioration of the real estate market kicked in. They hold on to the surplus objects in ownership for better times to come. In the meantime, Shell has been preparing objects to be sold in the future. ING has made a selection of '*kilo-knallers*': properties that have to be let go first and for which impairments will be accepted. Gradually, when the business allows them to, they sell and (often) take the losses.

AkzoNobel and ABN AMRO did realize quick wins during the crisis. AkzoNobel decided to sell unused property – primarily production facilities and surplus land – immediately for market conform prices, for they do not want to act as real estate investors and wait for market recovery. Business yields higher returns than land. ABN AMRO closed down over 250 shops during the integration process. About 150 shops – from both ABN AMRO and FBN – were in ownership. Not everything could be sold immediately. ABN AMRO is pro-actively looking for buyers, but since institutional investors have retreated this is difficult to realize.

23.3.3 INCREASE FLEXIBILITY

Over the past decade, all corporations have been gradually disposing their real estate objects in ownership. This mainly concerns the market-conform (generic) objects. Ahold, AkzoNobel and Shell hold their strategic objects in ownership in order to protect and secure it. Besides, these real estate objects often require major investments. In the case of AkzoNobel and Shell, this concerns company-specific real estate that is not, or hardly transferable.

For market-conform real estate, leasing is generally favoured over ownership for flexibility reasons. Generating liquidity, for instance through sale-and-leaseback constructions, is not of primary importance. ABN AMRO and ING are able to finance investments relatively cheap, which makes ownership often cheaper than leasing. ABN AMRO and ING still have

50% of the portfolio in ownership. According to Hagedoorn (ING), for them, leasing will become a cheaper alternative only when at least 40% of an owned real estate object is vacant. Schaap (ABN AMRO) even argues that in normal market circumstances, i.e. a stable real estate market, ownership is as flexible as leasing: buying off a lease contract often involves paying the total residual rent. Napier (Shell) confirms that also for Shell, owning is cheaper than leasing; however, leasing is always more flexible than owning which is proven in the current market environment.

23.3.4 INCREASE SATISFACTION

When the portfolio reorganizations were almost successfully executed, AkzoNobel, Shell, ABN AMRO and ING made use of the situation to introduce a new working concept. Some of them had already started these transformation processes before the start of the credit crunch, but the portfolio reorganizations provided them the opportunity to implement the concepts on a larger scale. Shell started with the headquarters transformation in the early 2000s and is eventually implementing it everywhere. Shell thereby adopts the 'inside-out' concept: single management offices are located at the inside of the building; the open plan offices – which facilitate the mass employees – are located alongside the façade. Real estate is presented as a mean to attract and retain employees. ING is constantly turning the knobs, thereby lowering the flex ratios and introducing new working methods. This has to result in structural cost savings, year-on-year.

AkzoNobel however has just begun the transformation process; just like Shell, the construction of the new headquarters in Amsterdam is used to set the example. The introduction of the new working concept is thus imposed from top down, which is necessary to persuade local real estate managers to obey. To ABN AMRO, the introduction of a new working concept was merely a nice bonus of the integration process. ABN AMRO used the new working concept to lower resistance from employees, by providing them a new and improved workplace. Ahold moved the Ahold headquarters back to Zaandam, squeezing it in with the former Albert Heijn headquarters. This was realized by tightening the flex ratios.

What is the common response of the real estate strategy to the credit crunch?

The corporations almost unanimously respond to the uncertainty in the markets with an 'incremental' approach towards real estate management. There are however dissimilarities in the actual real estate strategies. The two most common real estate strategies pursued during the financial crisis are (1) reducing costs and (2) increasing flexibility. This is understandable for the credit crunch has forced all corporations to take action: cost reductions are imposed on all levels and business units of the organization. This includes real estate as fifth resource as well. It is noticed that all corporations do compensate for the retrenchment, for most corporations combine these strategies with (3) reducing risk and (4) increasing satisfaction. Under these economic circumstances, reducing risk is often inherent to reducing costs and increasing flexibility, for this entails conservative decision-making and preparing for downturn in the future.

Period	Pre-crisis					Post-crisis				
Real estate strategies	Ahold	AkzoNobel	Shell	ABN AMRO	ING	Ahold	AkzoNobel	Shell	ABN AMRO	ING
Reduce Costs	1				1	1	1	1	1	
Increase Flexibility			1				1	1	1	1
Increase Satisfaction								1	1	
Encourage Innovation/creativity						1				
Promote Marketing				1					1	1
Increase Value										
Increase Efficiency/Productivity	1	1	1	1	1					1
Reduce Risk						1				
Support Sustainability										

Table 25: Real estate strategies: pre- and post-crisis

The case studies demonstrate one important strategy does not correspond with the findings of Gibler and Lindholm (2011). They found that the three most pursued real estate strategies

during economic downturn are: (1) reducing costs, (2) increasing employee efficiency & productivity and (3) enabling flexibility. Remarkably, all case studies corporations focused on efficiency & productivity before the credit crunch, but changed their main priorities to cost reduction after the credit crunch. This does not rule out that increasing efficiency & productivity is not pursued; it only proves that the accents during economic downturn change. The portfolio is shrunk and merged; new working concepts are introduced to lower costs and eventually, to increase productivity. This is illustrated by the integration motto of ABN AMRO: *'eerst draaien, dan verfraaien'*. After the transformation, the corporations have again invested in productivity and service-delivery.

All nine real estate strategies are pursued by one of the corporations at a certain point in time. Besides costs (reduce), efficiency (increase) and productivity (increase), also marketing (promote), risk (reduce) and satisfaction (increase) are quite common during recession. Pursuing increase of property value in the current real estate market is unreasonable, and will still be unreasonable for the coming years. Innovation and sustainability are on-going themes, but commonly not favoured during recession for this requires (major) investments. All real estate strategies preceding and after the start of the credit crunch are shown in Table 25.

Corporation	Ahold	AkzoNobel	Shell	ABN AMRO	ING
Themes	Reduce costs with 'Wheel of retail' and invest in growth.	Reorganize portfolio: create quick wins.	Benchmark portfolio and enable cost savings.	Integration: 'Eerst draaien, dan verfraaien'.	Increase efficiency portfolio after costly integration.
Department	<ul style="list-style-type: none"> ◦ Prepare for growth: 'plug-and-play'. ◦ Merger: Real Estate & Construction. 	<ul style="list-style-type: none"> ◦ Foundation Global Real Estate department. 		<ul style="list-style-type: none"> ◦ 'Transition Team': full responsibility for quick decision-making. 	<ul style="list-style-type: none"> ◦ Shift responsibilities to LREM and CREM.
Awareness		<ul style="list-style-type: none"> ◦ Create awareness in Management. 			
Governance		<ul style="list-style-type: none"> ◦ Create corporate guidelines. 	<ul style="list-style-type: none"> ◦ Roll out Shell Connect. 		
Reduce costs	<ul style="list-style-type: none"> ◦ 'Wheel of retail': invest in growth. ◦ Optimization current stones. 	<ul style="list-style-type: none"> ◦ Renegotiation lease contracts. 	<ul style="list-style-type: none"> ◦ Renegotiation lease contracts. ◦ Move to low cost locations. 	<ul style="list-style-type: none"> ◦ Quick savings: 'Eerst draaien ..' ◦ Tackle hidden office vacancy. 	<ul style="list-style-type: none"> ◦ 'Turning the knobs'. ◦ Manage vacancy level.
Disposals	<ul style="list-style-type: none"> ◦ Dispose non-core real estate when market is ready. 	<ul style="list-style-type: none"> ◦ Dispose (unused) portfolio objects, despite market conditions. 	<ul style="list-style-type: none"> ◦ Prepare owned objects for disposal in the future. 	<ul style="list-style-type: none"> ◦ Dispose (overlapping) commercial portfolio network. 	<ul style="list-style-type: none"> ◦ Gradually dispose owned portfolio: 'kilo-knallers'.
Working concept	<ul style="list-style-type: none"> ◦ Centralizing: headquarters closed and merged. 	<ul style="list-style-type: none"> ◦ Introduction new working concepts. 	<ul style="list-style-type: none"> ◦ Introduction Shell Connect. 	<ul style="list-style-type: none"> ◦ Introduction new working concepts. 	<ul style="list-style-type: none"> ◦ Introduction new working concepts.
Satisfaction			<ul style="list-style-type: none"> ◦ Satisfy employees with Shell Connect. 	<ul style="list-style-type: none"> ◦ Prevent resistance: present all employees new working environment. 	
Expansion	<ul style="list-style-type: none"> ◦ Foreign (Belgium, Germany) and non-food activities (Bol.com, PUP). 				

Table 26: Overview real estate implementations credit crunch

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SYNTHESIS

In order to understand the corporate and real estate activities of the case studies subjects, all elements have been linked and put in perspective. To be able to learn from the research, it is necessary to find and appoint common ground. Common ground might serve as cause for further research.

What cross-case observations can be generalized?

Impact matrix

The 'impact matrix' is used to describe and map the impact of economic downturn (credit crunch) on the business results of a multinational corporation, by means of three variables. By combining the three variables, a prediction of the financial-economic impact can be made. The research thereby assumes that the proposed influence on the business results is eventually translated to the strategic course of the business, i.e. the corporate strategy. Reflecting the model on the case studies has demonstrated that the model does capture the financial-economic impact on the case studies corporations correctly. According to the impact matrix, the order in which the corporations are affected by the credit crunch, from strong to weak, is: ABN AMRO, ING, AkzoNobel, Shell, Ahold. Thereby the assumption is made that the 'Beta' weighs stronger than the other variables, which would be understandable for the beta describes the direct relationship between a corporation and the economic conjuncture. Analysing the (relative) business results and the (degree of) corporate response of the corporations, the order – which predicted that ABN AMRO is affected stronger than ING and Shell is affected stronger than Ahold – is valid. One remark is made: there is never one single variable determinative, i.e. one variable cannot predict the

impact of the credit crunch by itself. This is illustrated by AkzoNobel (geographically strongly diversified: strongly affected) and Ahold (geographically strongly undiversified: not affected).

Corporate strategy

The assumption that the outcome of the impact matrix is translated to the corporate strategy is proven by the following observations. Those corporations that are according to the impact matrix affected the strongest by the credit crunch (AkzoNobel, ABN AMRO and ING) change their corporate course from a 'differentiation' to a 'focus' strategy. This drastic change in corporate course is the result of two variables: all have a high beta and are, more importantly, are heavily dependent on external financing. Consequently, these (structural) cost savings dominate the corporate strategy. Long-term commitments are postponed; high value transactions and investments are avoided. This driver is reflected in the real estate activities as well. All follow an 'incremental' approach towards real estate management and focus on costs and flexibility. All that counts is quick and efficient action. Those corporations that are less affected by the credit crunch operate a 'differentiation' strategy (Ahold, Shell) and use the credit crunch to take advantage of the market. Ahold tries to grow; Shell consolidates. They lower the cost-base, but keep investing in the business. The real estate strategy is dedicated to make this happen.

Alignment

All case studies corporations dispose of the basic principles of corporate real estate management: all operate a real estate department; all support the business; and all execute real estate operations or implementations. Following from the definition of alignment – alignment is demonstrated when one variable moves in a specific direction and the other variable reacts by moving in the same, or another, direction – one can safely say that all multinationals align corporate and real estate strategy. In most cases, the strategy or activities have been adapted in a direct response to the corporate course: an operational, top-down approach which basically means that management calls the shots and the real estate department executes. It is therefore not remarkable that the main objective of the real estate departments is to enable cost reductions. This is a response to the impact of the credit crunch on the business.

Theory however claims that adopting a pro-active strategic role towards corporate real estate management is expected to yield more success when faced with economic downturn, than adopting a re-active purely operational role. It is assumed that adopting a pro-active role will enable a real estate department to make a quick and accurate response to changes in the context, because they are one step ahead. Of the case studies corporations, only Ahold achieves pro-active alignment by formulating a real estate strategy, including real estate specific objectives, annually. Sadly, it is too soon to measure the relative success of the real estate strategies implemented during the credit crunch. The conclusion can already be drawn that pro-active alignment is not necessary to be able to add value to the organization. All corporate real estate management departments have added value to the corporate objectives during the credit crunch, among others by reducing costs, increasing flexibility and promoting marketing, in a response to the business. Whether this is only for the short-term or also for the long-term, time will tell.

Responsibilities

For a real estate department to become more strategic, it is important that the business is willing to shift responsibility. Too often, real estate departments do not have the competence to make (quick) decisions. They are bound to a constant dialogue that is dominated by the business units. The bigger the influence of non-specialized real estate departments is, the bigger the chance that the interests of the real estate department are overshadowed. The ability to add value is cut short. This is the case with AkzoNobel, ING and ABN AMRO. Consequently, they are only contributing to pre-defined objectives of the business. Following from the case studies, the degree of alignment between corporate and real estate strategy is thus dependent on the stakeholders and responsibilities involved in the decision making process, next to other factors such as awareness, maturity and size of the organization.

Sector differences

Multiple authors, including Krumm (1999) and Roulac (2005), stated that there is a distinction between the performance of real estate operations of service corporations and industrial corporations. The case studies prove that the sector or industry is indeed relevant for the alignment between corporate and real estate strategy. This is expressed with the real estate classification model. There are two observations: those corporations that have a customer-focus (Ahold, ABN AMRO, ING) (1) invest in their marketing strategy for promotion

is of crucial importance; and (2) adopt straightforward decision-making, i.e. they respond quicker and more vigorously to changes in the context for this can have great influence on the competitive position. The quickest and strongest response is seen with corporations that meet the alignment of research elements as shown in Figure 94.

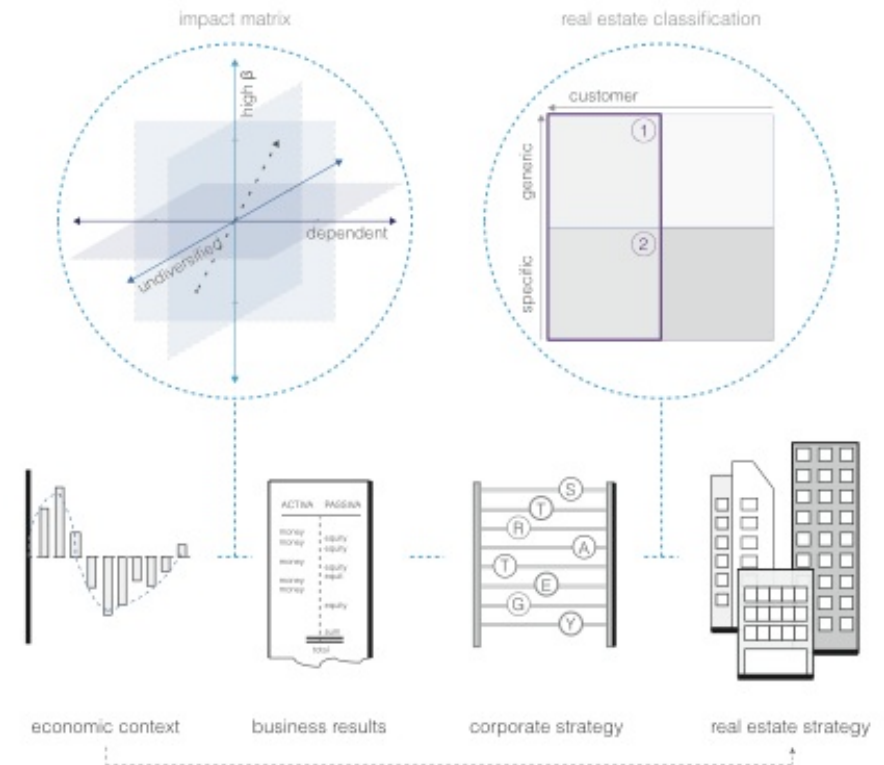


Figure 94: Conceptual model: strongest possible impact

Those corporations that operate an industrial portfolio (AkzoNobel, Shell) are only focused on the office portfolio. The engineering department determines real estate characteristics of the production plants. The real estate organization is strictly operational. Following from the case studies, the degree of alignment is stronger when real estate is of primary importance

for the success of the business activities. Service corporations show greater coordination of real estate activities than industrial corporations. However, this is not reflected in the attitude towards real estate (Joroff).

Financials

The corporate needs are translated in the financial considerations regarding the real estate portfolio. Considerations have changed: partly to reduce risk (increase flexibility), mainly to make quick wins and create liquidity. All corporations favour leasing, according to them not for liquidity reasons, but for flexibility. The claim that during economic downturn, corporations more and more tend to make use of sale-and-leaseback constructions, seems false: of all case studies subjects, only AkzoNobel made use of a sale-and-leaseback construction with the disposal of the offices in Arnhem. The expectation is that the introduction of the revised (European) 'fair value' accounting systems (IFRS) for lease-accounting in 2013, will influence the real estate financing considerations, further lowering the corporate real estate ownership ratio (WiseGEEK 2013).

G. FINISHING UP

Once all research steps have been taken, it's time to finish up. The main research question is answered. A reflection on the research is presented and recommendations for further research are discussed.

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CONCLUSION

Geroski and Gregg (1994) argued recessions to be a godsend, at least for one reason: "They are periods of extreme adversity that strain management capabilities to their limit, and they are, therefore, a natural setting in which to study how firms cope with environmental challenges" (Geroski and Gregg 1994). Major events like mergers, crises and internal reorganizations required changing the corporate strategic thinking, thereby changing demand for accommodation. It encouraged corporations to take a good look at their own real estate portfolio: "Globalization of business operations and other competitive pressures are forcing corporations to re-evaluate their real estate needs" (Lindholm, Gibler et al. 2006). Krumm (1999) argues recessions stimulate firms to re-examine their portfolio and activities and encourage them to increase efficiency.

This research makes use of the credit crunch as trigger to analyse the changes in corporate and real estate strategy during economic downturn. Five Dutch multinational corporations from three industries are analysed over a period of twenty years. The research covers all elements in the link between the economic context and real estate strategies of multinational corporations, thereby reflecting upon above-mentioned statements, by giving answer to the following research question:

'What is the effect of the credit crunch on the real estate strategy of a multinational corporation?'

The 2007 credit crunch has dominated Western economies for over five years already. In this period of economic downturn, the vast majority of the commercial businesses have been harmed by dropping demand and profits, which eventually has forced them to strategically respond on the short-term. Others have been able to take advantage of the opportunities that the credit crunch has presented.

The case studies prove that the credit crunch has directly and indirectly influenced the corporate real estate management strategy. It has created awareness among corporate managers that real estate as a means can contribute to the achievement of the corporate objectives. Almost all corporations have upgraded their strategic approach towards real estate management. In all cases, (structural) cost savings dominated the corporate objectives. This asked for an incremental approach towards real estate. The primary strategic response was portfolio reorganization, especially for those corporations that (still) used a re-active approach towards real estate management. Portfolio reorganization included gaining quick wins by disposing property and enabling structural cost savings by increasing flexibility and portfolio efficiency. Corporations that use real estate for commercial purposes enabled quick and efficient action, compared to those corporations whose primary purposes are production.

Corporations that have been able to grow and expand during the credit crunch, make use of the real estate market to gain competitive advantage. The real estate market provided the opportunity to renegotiate lease contracts. The portfolio reorganization provided the opportunity to implement a new working concept and increase satisfaction among employees.

On the long-term, the credit crunch has changed the financial considerations regarding real estate management. In order to reduce risk, decision-making has become more conservative. The portfolio required a certain level of flexibility. Real estate disposals were generally put on hold.

26 REFLECTION

The reflection discusses the relevance of the research, the limitations of the product and recommendations for further research.

26.1 RELEVANCE

The research is affiliated with the real estate management discipline and corporate management discipline. The research's financial-economic perspective is an extension of the scope of the Real Estate Management Laboratory. The research makes it possible to assess and value real estate management in the economic context. The research is explorative of nature. The objectives endorse this: *"It's objective is to understand the correlation between different independent variables and in the end, have insight in the decision-making process of real estate managers. Its goal is to interpret and explain the cause-effect relationships within corporate strategic decision-making."*

The objectives have been accomplished, although the relationships have not directly led to new insights. Though the research is performed from a corporate perspective, the framework can largely be used in the public real estate field as well.

Economic basis

Research in the past has shown overlapping elements. Multiple authors have considered the relation between corporate strategy and real estate strategy. Others have looked at the impact of the economic context, though superficial. This research proposal combines both topics. No link has yet been made between corporate and real estate in specific conditions; neither has anyone tried to explain real estate management decisions based on business

results over time. No link has yet been made between corporate and real estate in specific conditions; neither has anyone tried to explain real estate management decisions based on business results over time. The basis of the research, covering all elements of the alignment between corporate and real estate strategy, can be used and extended. In order to make the relationship quantitative, the impact matrix and real estate classification model have to be further developed.

In-depth cases

Former research has been primarily executed with the help of surveys. This research tried to explain management choices through interviews, making it possible to go more into detail. The product therefor covers five full case descriptions that cover a wide range of topics and go in-depth. The knowledge gained can be used as input to any other research that is related to corporate and real estate management.

Lessons

The research was intended to explain the reasoning and execution process and provide policy recommendations to corporate and real estate managers. However, the conclusions itself are not surprising or new. No policy recommendations could be presented, because (1) the number of case studies was restricted and (2) the success of the corporations' strategy could not be measured yet. More case studies have to be performed.

26.2 LIMITATIONS

Number of case studies

The limitations of the research are the result of the size (width) of the research. To picture all connecting elements in the case study, a lot of information has to be gathered. In this timespan, this has only been possible for five corporations. To be able to draw sound conclusions and provide recommendations, the number of case studies should at least be doubled. Preferably, more case studies would be analyzed from different backgrounds (industries).

Quantitative substantiation

The economic context and the business results have been quantified through indicators, but the collected real estate data is purely qualitative. If both the alignment models (impact matrix and real estate classification model) and the real estate activities could be quantified, the cross-case comparison would be much stronger.

Public information

The financial-economic data gained comes from public sources. The indicators are sensitive to misuse by those who want to. Underlying thoughts and numbers of the business results should be investigated to understand the business results better and make them comparable.

Interviews

It was not possible to interview both real estate and corporate managers for every corporation. This is a shortcoming. Real estate managers are often not fully aware of the business principles and decisions. In addition, it should have been useful to make a second interviewee from the same corporation reflect on the findings.

Timeframe

This research was executed between September 2012 and January 2014. The credit crunch has had such an enormous impact that the effects of the real estate implementations during recession are not visible yet. The timeframe did not cover the post-crisis period and the success of the real estate activities can thus not be measured.

26.3 RECOMMENDATIONS FOR FURTHER RESEARCH

Extend case numbers and sectors

The cross-case analysis in the research is restricted to three sectors and only five corporations. When performing more case studies from different sectors, it is interesting to analyse the alignment phenomenon between sectors, thereby looking at the stakeholders involved in the decision-making process.

Post-crisis analysis

According to Gibler and Lindholm (2011), for firms that solely retrench and cut costs, competitiveness may be hampered when recovery comes. This research is not able to answer that question. Although economic recovery has very carefully come to light in 2012, it is too soon to draw conclusions. This is not within the scope of the research.

Alignment table

Make an alignment table for different stages of the economy and different stages of the corporate maturity. The research shows that corporations learn from the past and make use of different real estate strategies, when implementing the same driving force, at a later point in time. This research has not been able to draw the alignment table, because the number of case studies did not allow making a decent comparison and drawing sound conclusions.

Further research on the case studies subjects should be performed in 3 – 5 years to see what the credit crunch has actually done for the corporations on the long-term. Did the organization change structurally? Did the awareness increase? Did the real estate strategy during the crisis make them come out stronger?

Impact matrix

The applicability of the impact matrix on different multinationals can be tested. Moreover, it is advised to investigate the possibility of quantifying the model. The variables should therefore be weighted accordingly. This could benefit the research, especially when the real estate activities can be quantified as well. This way, the impact of the credit crunch on the real estate strategy can be directly measured.

Financial considerations

Most corporations have changed their financial considerations during the credit crunch (real estate bubble). It was not in the scope of the research to evaluate the decision and look at the effect of this measure. Does a firm really benefit from leasing the portfolio? Is the flexibility as big as the managers think it is?

H. REFERENCES

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| . APPENDIX

APPENDIX A: MAIN EVENTS

With the fall of the Iron Curtain, the early 1990s were a turning point in both society and economy. The end of the Cold War in 1991 left the United States of America as one and only world-power. The Anglo-Saxon model prevailed, also in the Netherlands, and the neoliberal ideas influenced the Dutch government (Velzing 2012). The exceptional unemployment rates during the early eighties – which peaked in 1985 with over 800.000 Dutch people being unemployed – recovered in the 1990s: from 10% unemployment in the 1980s to an average of 4% in the 1990s. The economy stabilized and the political environment calmed. The service industry, ICT and banking institutions flourished (Kreijkes 2009). In 1992, the European member states signed the Maastricht Treaty, which created the European Union, consisting of three pillars: the European Communities, common foreign and security policy and police and judicial cooperation in criminal matters.

Which main events have dominated the global environment in the past twenty years?

1993

Colombia's notorious cocaine cartel leader Pablo Escobar is killed by police.

Intel Pentium Chip.

Personal computer technology takes a major step forward with the release of the Intel Pentium chip.

The World Wide Web goes public.



1994

The Rwandan genocide begins.

Close to 1 million people would be slaughtered in a 100 day period in one of the worst incidents of ethnic cleansing in the 20th century.

Nelson Mandela president.

Nelson Mandela becomes South Africa's first black president after more than three centuries of white rule.



1995

Yahoo!, the popular search engine, web directory and email service is founded by Jerry Wang and David Filo.

1996

Bill Clinton is elected to a second term as president of the United States, defeating candidate Bob Dole.

1997

Kyoto Protocol is signed.

The Kyoto Protocol, an environmental agreement meant to combat global warming is negotiated in Japan.



Dolly the sheep is introduced to the world as the first fully-cloned complex organism.

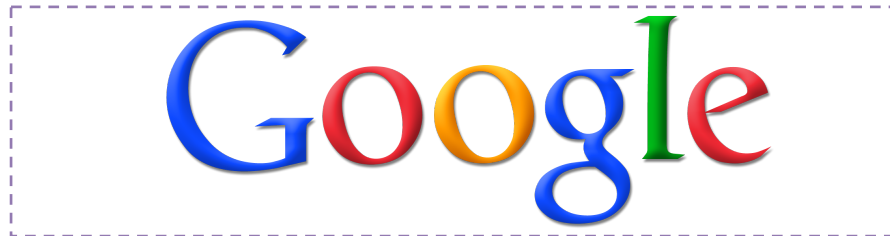
Mad Cow Disease.

Mad Cow Disease, otherwise known as BSE dominates headlines when it is conclusively shown that it can be transmitted to humans through the consumption of infected beef.

1998

Google is founded.

Google, a company that would come to dominate the internet search engine wars thanks to their unique sorting algorithms, is founded in California.



1999

The 6 billionth person populating the Earth is born.

2000

The dot-com bubble bursts.

The dot-com bubble was a speculative bubble in 1998 – 2000, during which stock markets in industrialized nations saw their equity value rise sharply from growth in the more recent Internet sector and related technology fields.



2001

George Bush is sworn in as the 43rd President of the United States

Terrorist attack leaves 3,000 dead

On the morning of September 11th, 2001, 19 al-Qaeda terrorists hijacked four commercial airliners and crashed two of the airliners into the Twin Towers of the World Trade Center in New York, killing thousands.



Apple launches the iPod

2002

The Euro enters circulation.

The euro was established by the provisions in the Maastricht Treaty of 1992. To participate in the currency, Member States were required to meet strict criteria, such as a budget deficit of less than 3% of GDP, a debt ratio of less than 60% of GDP, low inflation, and interest rates close to the EU average.



2003

The invasion of Iraq.

The invasion of Iraq was led by the United States, alongside the United Kingdom, "to disarm Iraq of weapons of mass destruction (WMD), to end Saddam Hussein's support for terrorism, and to free the Iraqi people." The initial invasion phase lasted from 20th March to 1st May.



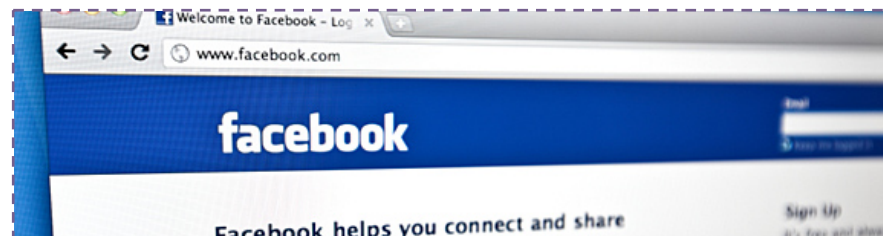
2004

George W. Bush is re-elected.

Indian Ocean earthquake leaves 230,000 dead.

The 2004 Indian Ocean earthquake was an undersea megathrust earthquake that occurred on 26th December 2004, with an epicentre off the west coast of Sumatra, Indonesia.

Facebook is launched.



2005

YouTube is launched

Hurricane Katrina floods New Orleans.

Hurricane Katrina, of the 2005 Atlantic hurricane season, was the costliest hurricane - as well as one of the five deadliest, in the history of the United States.



2006

Angela Merkel becomes the first female Chancellor of Germany.

North Korea conducts its first nuclear test

Saddam Hussein is executed

2007

Global economic downturn.

The world experiences the biggest financial crisis since the Great Depression. This global financial meltdown is caused by a number of factors, including the mentality of banks, the greed of consumers and their desire for instant gratification.



Nicolas Sarkozy is elected President of the French Republic

2008

Gordon Brown succeeds Tony Blair as Prime Minister of Great Britain

Apple debuts the iPhone

Oil prices hit a record high of \$147/barrel.

The net continues to boom.

By 2008, Google had processed over 1,000,000,000,000 (one trillion) unique URLs, whilst the number of individual web pages was growing by several billion per day and the number of individual users had reached nearly 1.5 billion.

2009

Barack Obama 44th president USA.

Barack Obama was elected the forty-fourth president of the United States in January 2009, becoming the first African American to do so. He immediately introduced several economic stimulus packages. Billions upon billions of dollars were spent in an effort to reinvigorate the financial system and free up credit.



2010

Marine environmental disaster.

On 20th April 2010, the Deepwater Horizon drilling platform exploded in the Gulf of Mexico, killing 11 workers and injuring 16 others.



Augmented Reality (AR) is entering the mainstream

Worsening economic crisis in Greece.

Greece ran up a massive deficit, reaching an estimated 13.6% by 2010. The level of deficit spending was outside the EU's economic regulations. By 2009, the country had begun to collapse under its crushing debts, which had grown 20% larger than the entire economy.



2011

Japan devastated by earthquake.

On 11th March 2011, a 9.0-magnitude quake and subsequent tsunami hit the east of Japan, killing over 15,000 and leaving another 9,000 missing.

The death of Osama bin Laden.

Operation Neptune Spear was conducted on 2nd May 2011 by a team of 79 Navy SEAL commandos after the go ahead was given by President Obama.

Global population reaches 7 billion.

2012

Economic turmoil continues.

The global economic crisis shows little sign of ending. Stock and bond markets remain volatile, while food and energy prices continue to rise. With protests continuing in many countries, various movements for change are emerging.



