Propositions

to the Ph.D. thesis

Corporate real estate management in multinational corporations

A comparative analysis of Dutch corporations

P.J.M.M. Krumm
Monday, 1 November 1999

I. The degree of autonomy of operating companies within a corporation is determinant of the role of corporate real estate departments and of the nature of the added value contributed by these departments.

II. The size of the domestic market as a percentage of the total turnover of a corporation is a measure for the degree of centralisation of that corporation.

III. Thinking about managing organisations is subject to trends. The pendulum is always swinging, from, for example, either decentralisation to centralisation, or vice versa; real estate management is not immune to these trends.

IV. Nowadays, managing a corporation’s real estate portfolio requires knowledge about both the corporation and real estate.

V. Staff and supporting departments in services corporations are more focused on providing support than staff and supporting departments in industrial corporations.

VI. When outsourcing activities it is important for a corporation to maintain sufficient knowledge in-house to be able to control the work of outsiders. Crucial to this is the question whether the corporation is in need of a critical mass of knowledge or of a mass of critical knowledge.

VII. The opinion that design research is solely related to disciplines dealing with product design ignores the fact that processes are also designed.

VIII. The statement by Wytze Patijn (1998) that the ideal principal should do more than just satisfy his own needs – his acts should reflect cultural importance – does not change the fact that the prime responsibility of the principal is the profitability and continuity of his corporation.

IX. The popularity of Nike sporting shoes, Australian tracksuits and isotonic beverages creates the misguided impression that the Dutch are playing more sport.

X. The drastic effects of repetitive strain injuries have given a whole new meaning to the words ‘a plague of mice’.
Stellingen

I. De mate van autonomie van operationele bedrijfsonderdelen in een onderneming is bepalend voor de rol van vastgoedafdelingen en de aard van de toegevoegde waarde van deze afdelingen.

II. De omvang van de binnenlandse markt in relatie tot de totale omzet is bepalend voor de mate van centralisatie binnen een onderneming.

III. Het denken over het managen van organisaties is aan golfbewegingen onderhevig; van decentralisatie naar centralisatie en vice versa; dit geldt ook voor het managen van ondernemingsvastgoed.

IV. Het management van ondernemingsvastgoed verlangt vandaag de dag zowel kennis van de onderneming als van vastgoed.

V. Ondersteunende afdelingen in dienstverlenende ondernemingen zijn meer ingesteld op dienstverlening dan ondersteunende afdelingen in industriële ondernemingen.

VI. Bij het uitbesteden van activiteiten is het van belang dat een onderneming voldoende deskundigheid in huis houdt om de verwerving van producten en diensten op adequate wijze vorm te geven. Cruciaal hierbij is de vraag of de onderneming behoefte heeft aan een kritische massa kennis of aan een massa kritische kennis.

VII. De opvatting dat ontwerpend onderzoek uitsluitend betrekking heeft op het ontwerpen van producten gaat voorbij aan het feit dat ook processen ontworpen worden.

VIII. De stelling van Wytze Patijn (1998) dat de ideale opdrachtgever meer moet doen dan alleen zijn eigen behoeften bevredigen - hij moet een daad stellen met een culturele betekenis - neemt niet weg dat de primaire verantwoordelijkheid van de opdrachtgever ligt bij de winstgevendheid en de continuïteit van zijn onderneming.

IX. De populariteit in Nederland van Nike sportschoenen, Australian trainingspakken en isotone sportdrankjes wekt ten onrecht de indruk dat Nederlanders veel aan sport doen.

X. De dramatische effecten van RSI geven een geheel nieuwe betekenis aan het begrip muizenplag.
Corporate real estate management in multinational corporations
CORPORATE REAL ESTATE MANAGEMENT IN MULTINATIONAL CORPORATIONS

A comparative analysis of Dutch corporations

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As so many people starting their PhD, I had promised myself that I would leave the University the day after my graduation. One the other hand, I realised that I missed something: I encountered a feeling that I had not satisfied my hunger for knowledge. Already while working on the thesis for graduation, I had applied for a post-graduate course in real estate and urban planning. Inspired by one of the professors at the University of Twente I set off to dig into the changing needs for accommodation and the processes of managing this accommodation. Relating real estate and organisational studies was regarded by many as a ‘mission impossible’. One of the elements in the curriculum of that post-graduate course was an international study tour. In our case the destination was New York City.

Since my objective for starting the post-graduate course was to focus on matching real estate and corporation, that was also the focus of the appointments to be made in the USA. One of my appointments was a meeting with a vice-president of Jones Lang Wootton. During the meeting a summary was presented of the first of a series of IDRC CRE2000 reports. The summary highlighted the content of a research program focused on aligning corporate strategies and the need for accommodation.

Returning to the Netherlands I had scheduled an appointment with the person who I believed would support me in my efforts to get this project started. The next day I accompanied Professor de Jonge to my first IDRC Benelux meeting. Under the supervision of Hans de Jonge, Geert Dewulf and John Suyker I completed the work and defended my thesis in December 1995. From the very beginning it was crystal clear that the project was a mere introduction to the topic of corporate real estate management. Some time before completing the post-graduate course the question was raised whether or not I was interested in completing the journey I had set in and upgrade my research into a PhD study.

Eventually I started work on this thesis in September 1996. Now, three years later, I am more than relieved that the work is finished. Although I believed that all the work done
during the post-graduate course would give me a head start, almost the opposite was true: in order to establish a solid framework, thorough literature research was necessary. It was a relief to have completed the desk research and be released into field research. For one-and-a-half years my prime activities consisted out of visiting corporate archives and interviewing people from of all of the firms that would comprise my eight case studies.

Looking back, this thesis was to provide doorways or lessons for the future, to distil out tendencies based on transitions and transformations in the evolution of corporate strategies and structure.

Although I have tried to present an up-to-date representation of the status of corporate real estate management within Dutch multinationals, ultimately reality has caught up with me. During the last couple of years there have been a tremendous number of radical changes. When I started my work in 1996 only a handful of people in the Netherlands were aware of the initiatives of the CRE 2000 project. In three years time, a lot has changed. Many of the corporations cooperating in this research have encountered changes in their corporate setting or changed their ideas on managing their real estate assets.

The thesis consists of eight chapters. The first four provide a description of the setting in which the research was done. While Chapter 1 provides a general introduction to the subject and the research methodology, Chapters 2 and 3 focus on arenas in which the subject of corporate real estate management performs: the multinational corporation, and the real estate perspective. Chapter 4 addresses the transformation of the current setting and research methodology into a framework for analysing the research problems. Following these introductory chapters, Chapter 5 provides an overview of each of the eight corporate cases. The last three chapters of the thesis provide the analysis of the cases and answers to the research problems underlying this thesis. Chapter 6 focuses on the relatedness of the role and position of the real estate department to the evolution of the multinational corporation. The next chapter, Chapter 7, addresses the impact of characteristics of the corporation and the real estate department on the nature of the products and services delivered. Chapter 8, the final chapter discusses lessons to be learnt from the outcomes of the two previous chapters and elaborates on the analysis in an effort to signal future developments.

An essential element in my research has been the cooperation of corporations, and especially of individuals who made time to share their knowledge and insights with me. I would like to thank them all for making this thesis possible.

Thanks, too, to Hans de Jonge and Geert Dewulf for their guidance and enthusiasm, which supported me during my work. In addition to their support in my research they also gave me the opportunity to participate in a number of activities that not only
provided a necessary distraction from PhD work, but also provided opportunities to obtain practical experience. On other occasions they were also able to temper my enthusiasm when needed.

Furthermore, I would like to thank my colleagues at the Department of Real Estate & Project Management. Special thanks are due to Paul Vos, Juriaan van Meel and Gert-Joost Peek. Thanks, as well, to Richard Loman for his comments on the draft of this thesis.

Last but not least, I would like to thank Ingrid, and my father, mother and brother for their support during the three years that I have been working on this thesis.

Peter JMM Krumm
November 1999
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Chapter 1

Corporate real estate management in multinational corporations

1.1 Introduction

Although several studies related to management in multinational corporations have addressed the topic of managing corporate resources, and although some of these studies have identified real estate assets as one of these resources, little research and literature is available on the management of a corporate real estate portfolio. A similar lack of attention is noticeable from the point of view of architecture and building studies. Studies on architecture mainly address the changing design of buildings, while focusing on the image or usage of the buildings. Attention to the role, activities and interests of building owners is often lacking. This thesis endeavours to bridge this gap.

The theme of this thesis is corporate real estate management (CREM). De Jonge defines CREM as the management of corporate accommodation in order to obtain maximum added value for the business. Nourse describes CREM as the collection of activities related to the acquisition, management, and disposal of real estate to achieve user objectives. Instead of focusing on maximising wealth in real estate investments, the corporate real estate manager’s opportunities to maximise the return on investment is controlled by and must conform to the business of the corporation. This may be banking, retailing or any other, non-real estate, business. Bon describes CREM as the management of buildings and parcels of land at the disposal of private and public organisations that are not primarily in the real estate business.

The arena in which corporate real estate management performs consists of two main stages: one on which real estate plays the main role, and one on which the main role is allotted to the multinational corporation. On the first stage the constraints of managing a real estate portfolio are portrayed. Since the beginning of commercial and industrial use of real estate, not only the technical construction of the buildings has changed, but the size of portfolios managed by organisations has increased as well. The impact of both changes, combined with a change in the business processes taking place in the buildings, has resulted in a transformation of real estate management. The second stage is the forum for the evolution that takes place within organisations that make use of
real estate in order to accommodate their business processes. Over time, industrial and commercial organisations have grown from one-man enterprises to corporations financed by shareholders and operating in many countries all over the globe, often producing a great variety of products or services.

Managing a corporation's real estate portfolio has gained increased attention since the 1980s. Following the growing demand for office space in the late 1970s, the 1980s were characterised by a surplus of vacant office and declining market rents. In addition, the global economic recession of the early 1990s resulted in the laying off of thousands of employees and led to the disposal of thousands of square metres of office and production space. Once the expenditures on personnel had been reduced it became clear that real estate was the second highest cost item. In addition to changes in the amount of real estate needed, the qualitative demand for real estate has changed enormously. The mass introduction of information and communication technology in both the office and production environment has radically changed both the nature of business processes and the need for accommodation. Besides alterations in technical requirements on, for example, ventilation and cabling within buildings, new technologies have made business less dependent on location, quickened the speed of business processes, and transformed physical markets into electronic ones.

Parallel to changes in the qualitative and quantitative need for accommodation, departments involved with managing corporate real estate were simultaneously faced with a reconsideration of corporate objectives. Following a period of post-war growth and diversification of corporate activities in the 1960s and 1970s, the corporate environment changed during the early 1980s. Growth of international competition and increased macro-economic instability brought corporate competitiveness into focus and resulted in the emergence of strategic management as a discipline. As a result of the focus on the corporate competitiveness, corporations started to concentrate on their core-business activities and to outsource supporting activities. Outsourcing non-core activities involved in many cases also activities relating to accommodation and real estate.

As a result of the corporate growth, the structure and strategies of corporations also changed – or rather evolved. Traditional family-run enterprises, operating within the geographical confines of their home country, have been replaced by multi-product firms that operate all over the world and are controlled by shareholders. Decentralisation of operational responsibilities and deconcentration of activities changed the role of the corporate headquarters – and staff and supporting departments – in many corporations. An increasingly important element in achieving corporate competitive advantage is enabling synergy among corporate activities. As a result of the tendencies to decentralise responsibilities and outsource non-core activities alignment of resources and capabilities with regard to real estate is often lost. Competition with service providers, growing importance of shareholder value, and increasing power of business
units demand that CREM departments review their traditional raison d'être. While many corporations once maintained large, centralised departments involved in real estate, nowadays most corporations have decentralised large portions of responsibilities and activities to operating companies, maintaining only a limited number of staff to manage corporate, regional or national real estate resources and capabilities. Whereas CREM departments used to provide compulsory products and services, mainly of a technical and operational nature, currently the majority of these activities are either delegated to operating companies and/or outsourced to service providers.

Both the role – products and services – and the position – place within the organisation of a corporation – of CREM are affected by changes in the corporate setting and views on real estate. As a result, within many corporations nowadays, a debate is taking place about the raison d'être and positioning of staff and supporting departments. Mergers, acquisitions and financial crises can give, as will be described in this research, an important impulse for a review of the organisational structure of a corporation.

1.2 Towards a problem definition

As a result of the changing corporate perspective on real estate, management of a corporation's real estate portfolio is an issue that is increasingly addressed in both academic and popular journals. Finding a theoretical basis and argumentation for this thesis is difficult given the fact that the large majority of journals and research devoted to real estate focus on real estate finance, economics, and portfolio management. Besides the modest amount of available literature, the content of books, journals and magazines related to real estate is limited and mainly consists of surveys, prescriptive articles, or valuation articles. Londerville summarised the existing literature on corporate real estate by emphasising the types of issues addressed and the conclusions established. She concluded that:

- Most of the surveys, performed by or in affiliation with professional organisations of corporate end-users, are limited to identifying some aspects of corporate real estate such as the presence of a management information system, or the percentage of total assets.
- Prescriptive articles mainly address real estate practitioners and describe methodologies for the effective and efficient management of real estate so that the overall strategic goals of the corporation are met.
- Valuation articles focus on the impact of real estate decisions on corporate share values and operating practices of corporate real estate practitioners. Such articles mainly focus on adapting methodologies from the finance literature to assess the impact of real estate transactions.

Manning and Roulac even state that whereas during recent years interest in researching corporate real estate management issues was growing among academics, apparently that interest is now on the decline; at the very time that corporate real estate
executives are devoting more attention to the issues themselves. Business literature hardly addresses the topic of corporate real estate management at all. As Veale argues: “If corporate real estate is considered a step-child in the world of business, it is an orphan in the world of business education.” Besides being based upon ‘best-practices’, the limited literature that is available on CREM focuses on conditions in the United States. In 1980 Hofstede published an article entitled “Do American theories apply abroad?” The article stated that generally accepted US theories such as those of Maslow, Herzberg, McClelland, Vroom, McGregor, Likert, Blake and Mouton may not or only partly apply outside the borders of their country of origin; assuming that they do apply within those borders. Besides US-based studies, smaller research projects have been carried out in the United Kingdom, Germany, Italy, and New Zealand. Little is, however, known about corporate real estate management in the Netherlands. Although the situation in the Netherlands is not necessarily different from those in the United States or Germany, studies by Trompenaars, Hofstede, and Fukuyama indicate cultural differences between organisations that originate from different countries. Besides such cultural differences, differences have also been found with regard to the administrative heritage of corporations, and with regard to the time horizon used to determine returns on investment.

Journals devoted to strategic management address the topic of the corporate centre merely in the context of corporate diversification. While corporations were once organised as centralised organisations, in time the perspective on the role of the corporate headquarters and staff and supporting departments changed. Decentralisation of operational authority to operating companies and corporate striving to limit its business to core activities challenged the existence of functional departments, as for example those responsible for corporate real estate management. The effects of changes in corporate setting on the role and position of staff and supporting departments are, however, rarely discussed. In the process of reviewing the current role and position of CREM, corporations are confronted with a lack of references. Exchanging experiences and opinions about the various implementations chosen by each corporation appeared to be an important element of almost every interview I held during my research.

The apparent lack of research and the increasing practical relevance of a better understanding of the role and position of departments involved in managing a corporation’s real estate portfolio led in the following objectives for my research:

*to improve understanding of the relationship between the role and position of corporate real estate management in Dutch multinational corporations and characteristics of those corporations;*

and
to determine the added value of corporate real estate management and to pinpoint dependencies between the characteristics of corporations and the nature of that added value.

These objectives generate the following research questions, which have to be addressed if those objectives are to be met:

How is the evolution of corporate real estate management related to changes in the strategies and structures of multinational corporations?

How is the current role and position of corporate real estate management related to the current strategies and structures of multinational corporations?

What is ‘added value’ and how is the added value of corporate real estate management to be determined?

To answer these research questions a clear and delineated research subject has to be defined. This thesis focuses on the organisational entity responsible for managing a corporation’s real estate portfolio. The outcome of the thesis should produce recommendations – based on past and present experiences – that indicate the pros and cons of the different roles and positions of corporate real estate departments. This research aims to provide lessons for those involved in managing a corporation’s real estate portfolio. To answer the second objective of this thesis an analysis was made of the (potential) contribution of corporate real estate management to the performance of a corporation. Pinpointing the added value of paying managerial attention to real estate provides corporations with arguments for maintaining or even establishing real estate departments.

As indicted by the nature of the above objectives and research questions, the focus of this research is the organisational implementation of real estate departments within multinational corporations. Consequently the research framework will be primarily based on theories stemming from organisational and strategic management studies rather than financial, economic or architectural studies.

1.3

Research methodology and approach

1.3.1

Research methodology

The objective of my research was to gain insight into the complex settings in which the management and control of corporate real estate assets in multinational corporations takes place. As indicated by Rummel and Ballaine, research is a careful inquiry or examination that aims to discover new information or relationships and to expand and verify existing knowledge. They define scientific research as the systematic and refined
use of specialised tools and procedures to obtain a more adequate solution to a problem than would be possible by less discriminating means²⁷. Management science is primarily an empirical one; the profession discusses real-life issues. These issues are consequently captured in theories and models. On the other hand management science also has some constructive elements: it provides tools to assist in the design of the real life²⁸.

The purpose of my research was to explore the relation between characteristics of multinational corporations and the role and function of CREM within Dutch multinational corporations. As indicated in previous sections, there is a lack of literature both with regard to real estate management and the role of functional staff and supporting departments in general. Publications on CREM are to a great extent limited to surveys, prescriptive articles, or valuation articles²⁹. The lack of information is even greater in the case of Dutch corporations.

In line with the reasoning of Rummel and Ballaine, my research expands on existing knowledge in Anglo-Saxon countries and examines the role of corporate real estate management as a staff/support function in multinational corporations. In this inquiry systematic use was made of tools developed for strategic management. Ultimately this research sets out to ‘discover’ information about the relationship between managing corporate real estate portfolios and the characteristics of (Dutch) multinational corporations in general.

"The aim of research in business systems is to provide a framework for comparing and contrasting the different ways of organising economic activities which have become established in different institutional contexts and to suggest how some key characteristics are interrelated in particular kinds of business systems"."³⁰

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Type of research question</th>
<th>Requires control over behavioural events?</th>
<th>Focuses on contemporary events?</th>
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<td>Experiment</td>
<td>How, why</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Survey</td>
<td>who, what, where, how many, how much</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>who, what, where, how many, how much</td>
<td>no</td>
<td>yes/no</td>
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<tr>
<td>Case study</td>
<td>how, why</td>
<td>no</td>
<td>yes</td>
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One common misconception is that there is a one-on-one link between the purpose of research – descriptive, exploratory or explanatory – and the research strategy employed. However each strategy – cases, experiment, survey, and archive analysis – can be used for all three purposes. There may be exploratory case studies, descriptive case studies and explanatory case studies. What distinguishes the strategies is not the hierarchy between the purposes but the conditions under which the research has to take place:

- the type of research question posed
- the extent of control an investigator has over actual behavioural events, and
- the degree of focus on contemporary as opposed to historical events.

The relation between these conditions and the various research strategies is depicted in Table 1.1.

According to Yin, case studies are the preferred research strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. Testing the objectives of this thesis in a ‘real-life’ setting limits the appropriate research methodology to performing case studies. While case studies are often seen as a research method merely suitable for exploratory research, Eekels states that most case studies are both descriptive and explanatory. The case-study strategy can not only serve many research purposes, but often has to balance descriptive and exploratory elements [see Figure 1.1].
The problem for most researchers is that they start off with the objective of producing general conclusions. One of the major disadvantages of the case-study approach is, however, the limited external validity of the results. Although this is especially true of case studies, every methodology is limited by the conditions under which the research is performed. Overstepping the boundaries of the research population can only be justified on the grounds of logical reasoning with regard both to validation and circumstances\textsuperscript{35}.

Generally a distinction is made between two kinds of reasoning: deduction and induction. Deductive reasoning focuses on extracting statements from general information in order to test these statements on the basis of facts. Inductive reasoning, on the other hand, focuses on acquiring general insight through generalisation of the observation of specific facts\textsuperscript{36}. Besides these more traditional forms of reasoning, Ayer distinguishes a third form: abduction\textsuperscript{37}. Abduction is a research strategy that deduces explanations and causes from facts and a collection of knowledge rules\textsuperscript{38}. Abductive logic concerns finding the best explanation of a surprising observation on the basis of incomplete data\textsuperscript{39}. An example of abduction is when a physician has to make a diagnosis on the basis of symptoms and his medical knowledge.

Given the setting in which this research is positioned, abductive reasoning is best suited. To be able to explain the relationship between the manner in which corporate real estate is managed and the characteristics of multinational corporations, the research has had to rely on the collection of knowledge rules obtained from other disciplines. Also, because the number of cases investigated is limited, abductive rather than inductive reasoning is more appropriate. The objective of this thesis is not to generalise the findings, but rather to find unity in diversity.

\subsection{1.3.2 Case study approach}

To increase the robustness of the study and to make its evidence more compelling, a multiple-case study was chosen. Each case must be carefully selected so that it either (a) predicts similar results (literal replication) or (b) produces a contrary result for predictable reasons (theoretical replication). An important step in such an approach is the development of a theoretical framework, which should state the conditions under which a phenomenon is likely to be found and, in addition, provide the vehicle for finding unity.

The multiple case study approach is illustrated in Figure 1.2, which indicates all steps taken from initial theory development to selection of cases, data collection, and case analysis. The following description of case study analysis is adapted from Yin\textsuperscript{40}:
"Each individual case study consists of a 'whole' study, in which convergent evidence is sought regarding the facts and conclusions for the case; each case's conclusions are then considered to be the information needing replication by other individual cases. Both the individual cases and the multiple-case results can and should be the focus of a summary report. For each individual case, the report should indicate how and why a particular proposition was demonstrated (or not demonstrated)."

In order to obtain the information needed to answer the research objectives, not only the selection of the cases is of importance but also the collection of the data. The selection of cases for this research was based on a number of issues:

1. A lack of insight into real estate management in the Netherlands, combined with the easier logistics and the prior existence of contacts within Dutch corporations, resulted in my limiting the research population to Dutch corporations. The selection of Dutch cases also excludes the impact of national culture as a confounding element. Selecting only Dutch corporations also enables the search for similarities in implementing corporate real estate management within Dutch multinational corporations thus supporting the requirement of literal replication.
2. Selecting both corporations in the services and industry sector provided the opportunity to compare the implementation of CREM within those sectors, thus supporting the objectives relating to theoretical replication.

The final population was limited to corporations that are characterised by:

- International operations that accounted for at least 30% of total revenue. For the allocation of scarce resources across the countries or regions, to be worthwhile, a certain degree of internationalisation is required.
- A corporate history of at least 50 years. Reviewing the evolution of the corporate real estate function is only possible if the corporation and corporate real estate management have had the time to evolve and to adapt to changing circumstances.

In order to understand better the relationship between the role and position of corporate real estate management and the characteristics of multinational corporations, extensive information is needed on both the corporation in general and its real estate management in particular. Data was gathered from interviews and from a variety of corporate and public documents, such as annual reports, newspaper articles, research reports, and the archives of the participating corporations. Interviews were usually held with representatives of the corporation's CREM department and with representatives of their 'clients' [see Appendix 2: List of interviewees]. Although many of those interviewed and archivists raised their eyebrows upon hearing the objectives of my thesis, every one of them was able to provide anecdotes on events involving corporate real estate, thus displaying their identification with real estate management. For each of the cases studied, a full report has been written that contains all information gathered. Each report was sent to its respective corporation in order to check the validity of the data. The reports were also the basis for the analysis of the cases. These full reports were consequently used to produce a brief 'backgrounder' on each of the corporations – see Chapter 5 – provided text illustrations in Chapters 6 and 7, and above all provided the data for the actual analysis of each case.

![Figure 1.3](image_url)

*Figure 1.3  
Analysis of the case studies in time according to the four perspectives*
Analysis of the relationship between the implementation of CREM and the general characteristics of the corporation includes both a review of its evolution and of its current state. The analysis of evolution is, parallel with Mintzberg and Westley\textsuperscript{41}, divided in three sections, each covering a distinct time period. Duckworth bases the analysis of the cases on a distinction in four different perspectives\textsuperscript{42}. Each of the descriptions covering a single corporation in a specific time-frame is referred to as an exclusive perspective. A completed case description provides an overview of one corporation during all of the time frames. The outcome of this specialised perspective displays the evolution of each of the individual cases in time. An analysis of all corporations in a single time period provides the opportunity to analyse the general trends of a time period. This general perspective is the basis of the analysis of the evolution of corporate real estate management. Finally, an overall analysis can be made, parallel to Duckworth’s portfolio perspective, of the relation between characteristics of corporate real estate management and changes in characteristics of the multinational corporation. The outcome of the analysis of a case provides both an overview of the evolution of the characteristics of corporate real estate management in the corporation. In addition the analysis enables us to describe the growth and changes in those departments involved in managing the corporation’s real estate portfolio [see Figure 1.3].

1.4

Outline of the thesis

To attain the goals listed in Section 1.2 it is necessary to address all the different elements described in the research objectives. Although one might expect that research focusing on real estate management would start off by elaborating the specific issues facing the discipline, the contrary is true. In order to be able to place the issues facing CREM in a proper context the reader has to be aware of transitions in the corporate setting and the consequences of these on real estate management (Chapter 2). Chapter 3 describes the history and evolution of real estate from a corporate perspective. Following these descriptive chapters, Chapter 4 focuses on the establishment of a theoretical framework for analysing the role and position of corporate real estate management in multinational corporations.

Based on an elaboration of both real-estate-related research and research efforts in other relevant disciplines a framework is developed which is to be used in both the data collection and in analysing the cases. Chapter 5 focuses on the specific setting of Dutch multinational corporations and provides a brief description of each corporation (case) in this study. Chapter 6 is the first of two analysing chapters that addresses the relationship between the implementation of corporate real estate management and the characteristics of the multinational corporation. Based on the outcome of the case studies, differences and similarities in the evolution and current role and position of CREM have been analysed. The second of the analysing chapters, Chapter 7, focuses on
the element of ‘added value’, addressing changes in the nature of the CREM activities as related to changing user needs and organisational characteristics of corporations. Chapter 7 aims to provide an answer to the question ‘Why should a corporation earmark managerial resources for managing its corporate real estate portfolio?’ The concluding chapter, Chapter 8, is aimed at reflecting on the conclusions presented in Chapters 6 and 7, and deducing lessons to be learn on the basis of the outcomes of this research.

The outline of this thesis and the relatedness of the chapters is illustrated in figure 1.4.

1.5 Notes


2 Nourse, Hugh O. (1989), Managerial real estate; Corporate real estate asset management, Prentice Hall.


9 Londerville, Jane (1995), Corporate real estate management: a summary of progress to date, Draft presented April 1, 1995, at the annual ARES meeting Hilton Head Island, South Carolina.

10 Ibid.

11 For example: IDRC, Nacore, EuroFM.


16 Hofstede, Geert (1993), Cultural constraints in management theories, Academy of Management Executive vol. 7, nr. 1, pp. 81-94.


21 Trompenaars F. (1993), Riding the waves of culture, London, Nicholas Brealey.

22 Hofstede, Geert (1993), Cultural constraints in management theories, Academy of Management Executive vol. 7, nr. 1, pp. 81-94.


28 Leeuw, A.C.J. de (1990), Een boekje over bedrijfskundige methodologie; management van onderzoek, Van Gorcum, Assen, p. 16.

29 Londerville, Jane (1995), Corporate real estate management; a summary of progress to date, Draft presented April 1, 1995, at the annual ARES meeting Hilton Head Island, South Carolina.


32 Ibid.

33 Ibid., p. 13.


38 Ibid.


Chapter 2

The changing corporate setting

2.1 Introduction

As small, family-run firms evolve into multinational corporations all elements of structure and strategy change. Awareness of changes within the organisational setting, in which real estate management has to operate, is an essential link in any study on corporate real estate management. The increase in complexity of the operating environment and the progressive cumulation of the challenges were stimuli to the evolution of the organisational structure. Ansoff\(^1\) describes this evolution as:

"Stable monolithic structures were forced into dynamic multi-faceted ones; the early 'Taylorised' functional structure transformed into a complex setting of multiple products, markets and regions."

Although the issue of managing large organisations is not confined to the 20th century, most of the early organisations were, however, characterised by either a religious, military, or state background. Even the Western European merchant companies of the 17th century, for example the Dutch East India Company, did not originate from a single entrepreneur's initiative, but were based on a need for merchants to cooperate and create coalitions, either with or without governmental help\(^2\). In spite of the fact that the British, Dutch and Spanish traded all over the globe in their colonial days, their trading companies were not multinational corporations\(^3\). Multinational corporations – as we know them today – were rarities until the late 19th century when companies like Royal Dutch/Shell and Unilever began to invest in overseas manufacturing facilities\(^4\). Bartlett and Ghoshal\(^5\) distinguish multinational corporations from internationally operating corporations by two criteria: considerable direct investment in third countries, and active management of 'foreign' assets instead of merely financial control. Vernon\(^6\) identifies three characteristics that are shared by all multinational corporations: they are linked by ties of common ownership; they draw on a common pool of resources, and they respond to some common strategy. Given these definitions, the true multinational has only just emerged.
Corporate growth and the concomitant transformation of the organisational structure and strategies resulted not only in the increasing complexity of organisations but also in changing roles for their corporate headquarters and staff and supporting departments. In order to comprehend the impact of these changes on the role and position of corporate real estate management within multinational corporations the evolution of corporations needs to be understood. Following an overview of the evolution of multinational corporations Section 2.3 focuses on the organisation of multinational corporations. Balancing diversity of interests is an important element in corporate strategies. Changing organisational structure and strategies moreover influence the function of staff and supporting departments; their changing role and position is described in Section 2.4. Section 2.5 provides a summary of this chapter.

2.2 Evolution of multinational corporations

Before the Industrial Revolution, the majority of industrial and commercial activities were controlled, or at least coordinated, by the state, the army or the church. Innovations in production processes, combined with increased purchasing power of the population, resulted in economic growth and an increase in industrial and commercial activities. The growth in consumer industries consequently laid the foundation for the rise of heavy industry, and the start of the so-called ‘Second Industrial Revolution’.

The large-scale implementation of the steam engine in the Netherlands had to wait until approximately 1820, when the textile industry discovered the possibilities of steam power. The French occupation and the resulting blockade between England and the European mainland, which included exchange of knowledge, was the cause of the late ‘Dutch’ industrial revolution. After the French retreated, the steam engine was introduced in the Netherlands and the industrial revolution made its start. Although the Dutch economy already showed initial signs of industrialisation in the 1860s, it was not until the 1890s that industrialisation in the Netherlands finally ‘took-off’\(^8\)\(^9\). The final breakthrough was the result of a concurrence of circumstances:

1. The period 1850 - 1880 was one of prosperity and growth for all of Western Europe, and given its mercantile tradition the Dutch economy shared in and benefited from the boom. That growth resulted in both a shift from agriculture and cottage-bound industries towards industrialisation and a blossoming of commerce, mainly caused by the rise of the capital goods industry\(^10\).

2. A second trigger was the international crisis in the agricultural sector, which started in 1878 and lasted until the mid-1890s. led to the urbanisation of many peasants. The lack of purchasing power, due to the majority of the population living below the poverty line, resulted in a temporary absence of triggers for further industrial growth. The expansion of the urban population, combined with the construction of the Dutch railway network, and the abolition of taxes on the ‘bare necessities of life’
were the most important impulses for the take-off of Dutch industry in the latter half of the 19th century.

3. Continuous improvements to the steam engine – through Otto’s piston engine, Daimler’s petrol engine and Diesel’s diesel engine – resulted in the introduction the electric motor at the beginning of the 20th century\textsuperscript{11,12}. Since in the Netherlands the generation of electricity was in hands of public authorities, it was possible to guarantee the continuous delivery of electric power all over the Netherlands.

Early corporations, often founded by entrepreneurs who had to employ personnel in order to realise their corporate goals, and who owned all corporate resources, did not require complex organisational structures and could suffice with traditional lines of control. During the industrial revolution and the beginning of the mass-production era (early 1900s), the majority of firms were satisfied with their own growth prospects, which resulted in an inward managerial focus on the efficiency of the production mechanism. Mechanisation of production processes created opportunities for corporations to expand at a rapid pace. The growth of corporations was mainly due to advantages found in large-scale production, i.e. in economies of scale. In order to expand production, many traditional, family-run firms had to appeal to external financiers to raise the required capital.

In the beginning of early modern industries, the lay-out of facilities was influenced by the sources of power chosen to drive the machines used. Locations were chosen on the grounds of minimising expenses\textsuperscript{13} and corporate growth was based on a search for raw materials, cost reduction, and new (consumer) markets\textsuperscript{14}. While corporate growth could for a long time be maintained by increasing economies of scale, at the beginning of the 20th century corporations started to broaden their operations outside their national markets in order to continue their expansion. This was especially true for European enterprises. Enterprises in chemicals and electrical equipment had achieved a particularly impressive spread of foreign manufacturing activities. Stoner and Freeman\textsuperscript{15} distinguish four reasons why corporations have to expand beyond their domestic markets:

- to gain access to more reliable or cheaper resources
- to increase return on investment
- to increase market share
- to avoid import tariffs or quotas

Limited by trade-barriers, corporations were forced to set-up factories in each country in which they desired to offer their product. In response to costly and unreliable international transport and communications, and highly differentiated markets, corporations were increasingly organised as a group of national subsidiaries with high degree of operational independence\textsuperscript{16}.

The increased complexity and the inability of managers to coordinate the many and dispersed activities of a large business pointed to the limitations of the functional structure. In the beginning of the 20th century, corporations like General Motors started
to decentralise operations\textsuperscript{17}. What had previously been a centralised organisation was divided into semi-independent divisions; each responsible for its own profitability, each maintaining its own strategies, products, and markets.

World War II brought about a sudden change. The devastation in Europe caused by World War II gave American corporations a lead in international operations. Implementation of new (production) techniques and management theories, developed in the biggest, richest, and technically most advanced post-World War II market resulted in a competitive advantage that was unbeatable in those days\textsuperscript{18}. Although the subsidiaries of US companies typically operated with a high degree of autonomy, domestic US operations kept their dominant position within the structure of the multinational. In this climate, US firms started making substantial direct investments in foreign industries\textsuperscript{19}. It was only in the late 1960's that European corporations started their counterattack. Benefiting from financial help from the United States, Europe had been able to rebuild its industries almost from scratch. While the Dutch economy had, up to World War II, mainly concentrated on the metal industries and in the processing of domestic and tropical agricultural products, due to high wages the Dutch were forced to look for opportunities in new industries\textsuperscript{20}. The opening of markets and economic growth in former colonial countries created new possibilities for corporations to expand their operations. Setting up foreign subsidiaries was done either by setting up new factories or by creating joint ventures with local partners. In either case, local knowledge was hardly available within the corporation so they had to rely on local or global service-providers.

As a result of the economic stagnation in the beginning of the 1970s, corporations and even entire business sectors encountered problems, some even facing bankruptcy. Declining growth, increasing unemployment and inflation followed\textsuperscript{21}. A large portion of medium and large corporations in the Netherlands faced severe problems in the early 1970s because they had not adapted enough during the economic recession\textsuperscript{22}. One of the signs of the economic recession was the first strike ever in the Netherlands at the Enka factories\textsuperscript{23}.

The end of the 1970s confronted Western industries with rising competition from Japan and Asian Tigers. Asian corporations were able to make use of dialectics of progress, both in flexibility of products and processes and in production costs. The principles of Total Quality Management – an American 'brain wave' based upon ideas of Demming and Juran – turned the image of Asian products from that of cheap imitations to quality products bristling with features and functional enhancements that brought technological sophistication to everyday living. The invasion of the Hondas, Sonys, and Canons caused a commotion in Western corporations, and resulted in increased competition\textsuperscript{24}. 

\textsuperscript{17} \textsuperscript{18} \textsuperscript{19} \textsuperscript{20} \textsuperscript{21} \textsuperscript{22} \textsuperscript{23} \textsuperscript{24}
The focus of interest in analysing competitive advantage changed in time from an external focus toward internal aspects of the firm. Competitive advantage was increasingly seen as depending less upon a firm’s choices in market positioning and more upon the exploitation of unique internal resources and capabilities.\textsuperscript{25}

2.3 Organising the multinational corporation

The simple structures of early organisations were not fit to support the continuous corporate growth and increased diversity of industrial activities. Division and delegation of management, and a distinction between management and ownership, resulted in a more differentiated, centralised, and functional organisation.\textsuperscript{26} Dissociated from the managerial terms for organisational structures, corporations changed from single product lines to multi-product, -market, -country and/or -cultural corporations. Whether the distinction between the organisational components is based on geography, consumer markets or product diversification, the concept of the organisation is structured as a corporate headquarters, or corporate centre, and strategic business units.

"In the early days a factory was a one-man enterprise. Then partnership arose. Subsequently when the corporation expanded in such a manner that the partners were not able to raise the required capital, the Public Limited Company (PLC) was born. The PLC enabled the corporation to appeal to thousands of shareholders in order to raise capital. In the next stage PLCs have to merge in order to gain economies of scale."\textsuperscript{27}

The continuous corporate growth and increasing geographical spread of business activities after World War II resulted in an expansion of the organisation. The primary problem of the continuously expanding corporation was the coordination of the increasing diversity in the nature and geography of its business activities. Alfred Chandler\textsuperscript{28} described how corporations evolved from a functional structure to a divisional form and how the role of the corporate centre changed as well. Product, market and geographical diversity may confront corporations with opportunities to create benefits. By the mid-seventies circumstances had changed. Accumulated evidence on the failure of diversification to create economies of scale slowed the drive towards conglomereration. Even more important was the increased macro-economic instability that discredited the elaborate planning systems. Increased international competition further threatened stability and survival, resulting in a decline in strategic planning in favour of strategic management.\textsuperscript{29}

A corporate strategy is focused on the overall purpose and scope of the corporation. This involves considerations of diversification and acquisitions, but also how the organisation is to be run in structural and financial terms; and how resources are to be allocated among the different business units.\textsuperscript{30} It is the task of the corporation to
develop a strategy for determining the markets in which the corporation wants to be active. Porter describes corporate strategy as being focused on at the long-term perspectives of the corporation at large and on the composition of the business activities. Goold and Campbell distinguish three styles of a corporate attitude that influence the role and position of staff and supporting departments:

• Financial Control
The influence of corporate headquarters is limited to controlling the allocation of financial resources. The focus is on encouraging businesses units to share financial resources. The role of the parent is mainly that of exerting financial control, primarily through annual budgets.

• Strategic Control
The role of the parent is to lay down plans concerning overall achievements, e.g. market shares and products. The strategy focuses on building a corporation around fundamental competencies shared by all business units.

• Strategic Planning
This strategy is focused on business units sharing skills and activities. The role of the parent in this setting is to encourage linkages between value chains of business units.

Regardless of the organisational structure that corporations adopt, simultaneous to the diversification of corporate activities, they move towards divisional structures in which responsibility is devolved to national organisations and operating companies. Instead of centralised functional organisations corporations are becoming more and more organised as groups of dependent and independent companies under the parental umbrella of functional staff departments and a board of directors. As corporations globalise and diversify, this almost always leads to decentralisation. As products and markets of the different business-units within a corporation become diversified, the opportunities to create economies of scale by aligning the use of real estate and real estate related services decreases. A divisional/business-unit structure of a corporation offers fewer options for alignment of activities and optimisation of assets. Porter describes this corporate balance:

"The need to configure and coordinate globally in complex ways creates some obvious organisational challenges. Any organisational structure for competing internationally has to balance two dimensions: a country dimension, because some activities are inherently performed in the country; and a global dimension, because the advantage of global configuration/coordination must be achieved. In a global industry, the ultimate authority must represent the global dimension if a global strategy is to prevail. However, there are strong pressures within any international firm to disperse more activities once it disperses any. Moreover, forces are unleashed that lead subsidiaries to seek growing autonomy".
Decentralisation of authority may, however, lead to difficulties in alignment of both relations between business units and relations between business units and the corporation as a whole. Business units are the "operating" units of a corporation; they are directly confronted with the consequences of the day-to-day competition, and due to the fierceness of that competition, business-unit strategies are mostly focused on short-term goals. Business-units strive therefore for more autonomy and decentralisation of the decision-making process. At a corporate level, however, long-term strategic decisions tend to demand for more control. Consequently the most important role of a corporate parent lies in influencing the performance of the businesses as stand-alone entities.

*Business Group presidents [within Unilever: PK] are responsible for operating their businesses in the most effective way. The most important elements of their role are:*  
- to take full profit responsibility for their group to develop regional strategies  
- to feed their understanding of local market needs into Unilever decisions about future corporate strategy and  
- the allocation of resources to execute corporate strategy

*Medium-term strategic plans are developed by each Business Group, based on the direction set at the top and the Group's portfolio of businesses. The plan contains a small number of strategic targets and a limited number of operational/financial targets. It also sets out the resources Unilever will make available in terms of investment and staffing needs. Working within the framework of their annual plan and the corporate policies laid down by the Executive Committee, the Business Group presidents are free to run their businesses in the most appropriate way [http://www.unilever.com].

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**Figure 2.1**  
Diversity and change in organisational structures  
[Keuving, 1995]
### Table 2.1
Advantages and disadvantages of organisational structures
[Keuning, 1995]$	extsuperscript{45}$

<table>
<thead>
<tr>
<th></th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Centralised functional structure | • Central coordination  
                              • Core business in departments  
                              • Functional expertise and specialisation | • Problems with functional coordination  
                              • Problems with market orientation  
                              • Profit responsibility only at the top |
| Decentralised functional structure | • Synergy and coordination between business-units  
                              • Aligning related activities | • Extra management layer between executive and business-unit  
                              • Each division has a different strategy  
                              • Duplication of staff functions |
| Business-unit structure | • Strategy close to business environment  
                              • Responsibility for business processes  
                              • Corporate headquarters focuses on strategy and portfolio | • Autonomy versus synergy  
                              • Corporate executive is dependent on business-unit managers  
                              • Duplication of staff functions |

The potential conflict of interest between synergy and autonomy, and between control and initiative, determines the relationship between corporate headquarters and business units$	extsuperscript{38}$. The manner in which corporations handle this potential conflict depends on the style of strategic management the corporation employs. Depending on the variety of activities and the predictability of the environment, corporations have to create their own ‘unique’ organisational structure. Keuning$	extsuperscript{39}$ distinguishes three main organisational structures:

- centralised functional structure
- decentralised divisional structure
- business-unit structure

The distinction between these organisational structures is based on the degree of diversity in business activities and the rapidity of change in the industry in which the corporation operates (see Figure 2.1). The more products or services a corporation produces and/or the more markets are served the more likely is a transformation from a functional organisation to that of an organisational structure based on a distinction in product or markets. Rapidity of change in the environment of the corporation affects its structure too.
According to Ansoff\(^4\), the dynamics of the environment is one of the major triggers for corporations to divide themselves into strategic business units. Bolwijnt\(^42\) states that the alignment of the corporate structure and the manner in which the corporation anticipates changes in the environment is critical to its success. Indeed, if there is no added value in gathering business units together in one corporation, the rationale for corporate existence is lacking\(^43\). Unless tightly monitored, decentralisation will create massive centrifugal forces that will eventually tear a corporation apart\(^44\). Table 2.1 summarizes the advantages and disadvantages of the three main organisational structures.

In line with the distinction of Goold and Campbell in different styles of corporate strategy Goold, Campbell and Alexander make a similar distinction with regard to different organisational settings in which parental advantage is obtained\(^47\). Parental advantage is described as the extra value creation that under certain circumstances may be obtained when a parent firm owns a business, compared to the situation where one of its rivals owns it, or it exists on a stand-alone basis. A distinction is made between between four types of influences [see Figure 2.2]\(^48\):

- **Stand-alone influence** refers to the situation in which the parent enhances the stand-alone performance of the business units.
- **Linkage influence** obtains when the parent enhances the value of linkages between the business units.
- **Under functional and services influence** the parent provides functional leadership and cost effective services for the business units.
- Finally, through **corporate development activities** the CHQ creates value by altering the composition of the portfolio of business units.

The four types of parental advantages describe the processes through which the corporations may stimulate synergies [see Chapter 4]. As such the Goold, Campbell, and Alexander's distinction, and other distinction with regard to corporate structure and strategies, will prove to be of value in analysing the cases.

### 2.4 Staff and supporting departments

The complete transformation of a traditional, functionally organised, family-run, domestic firm into a multinational corporation controlled by shareholders has shaped the role and position of central services and staff departments. Traditionally centralised organisations with an important role for corporate staff and support departments have changed into decentralised organisations delegating authority to their operational business units. Decentralisation of authority has resulted in a diminishing role for central staff and support departments, which existed mainly because of use of their products and services was obligatory. The potential conflict of interest between synergy
and autonomy, and control and initiative, determines the relationship between corporate headquarters and business units⁴⁹, and consequently the role and position of staff and support departments. No one denies the positive advantages of have (some) central coordination, but everyone is afraid of the central functions taking on a life of their own and growing, without regard to the needs of the businesses they serve; economies of scope are then defeated by diseconomies of empire⁵⁰. Staff departments are often regarded as an unnecessary overhead or a warehouse for corporate misfits. Analysing the changing role and position of corporate real estate management requires insight into general thinking about staff and supporting departments in corporations. On the other hand there are people, who are convinced of the benefits of a corporate centre with regard to planning and allocation resources, and controlling and auditing performance⁵¹. Although there are both advocates and opponents of such an evident relation between the actual role and the conceptual position of the centre, the final solution depends on the nature and structure of each organisation⁵².

The establishment of staff and supporting departments is a result of increasing corporate activities and the need to successfully operate in specialist disciplines. Frederick Taylor's striving for specialisation and separation of management and operations resulted in the foundation of staff and supporting departments. If the need for specialist activities becomes permanent corporations argue that it is cheaper to set up in-house departments to meet that need⁵³. Lievegoed⁵⁴ describes the foundation of staff and supporting departments in his theory on the evolution of organisations. In the pioneering phase of a corporation the pioneer, him- or herself, is the steering and
coordinating power that drives all activities. In the second phase (differentiation) the power base shifts towards steering and controlling through mechanisation and standardisation, which according to Lievegoed leads to specialisation. An increasing number of specialists within a corporation may result in distortion of the power balance. The solution for this conflict was the well-known staff-line construction, which separated staff departments from the daily activities and positioned them in an advisory role.

In his elaboration on organisational design, Henry Mintzberg makes a distinction between support staff and the 'techno-structure'. Mintzberg describes support staff as additions for providing various internal services, ranging from a cafeteria or mailroom, while the techno-structure is described as a staff department involved in planning and formally controlling the work of others. The distinction between staff and support departments is according to Keuning based on the fact of whether or not the department is involved in operational activities (support) or is involved in policy oriented activities (staff). Michael Porter describes the role of staff and support activities as those supporting both primary activities and each other by providing purchased inputs, technology, human resources, and various firm-wide functions. Gool, Campbell, and Alexander make a similar distinction between the added value of 'central functions' and 'central services'. The aim of a central service is simply to provide a cost-effective service, whereas central functions influence the decisions and policies of the business. In general, the basic rationales behind for the parent establishing central staff departments concern specialist expertise and economies of scale.

"My answer to size, structure and role questions with respect to the corporate centre is that it all depends. It all depends on the nature of the business, the complexity of the business and the tasks to be performed. The debate should not be about power, nor should it be about egos, span of control, decentralisation versus centralisation or size. The debate should be about adding value throughout the organisation."

The actual role of staff and support departments is, however, to a large extent determined by the corporate context in which the department is positioned. An important organisational element influencing the role and position of staff and supporting departments in the level of (de)centralisation. Chandler describes how central services in functional structured corporations are mostly organised in a centralised manner, while corporations organised in a divisional structure decentralised the responsibilities to the business-units. Centralisation refers to the level of decision-making authority within the corporation. When decisions are centralised the board of directors is often directly involved in authorising investments proposals. Centralisation is, however, often confused with concentration. Centralisation involves decisive power and money, while concentration is about grouping of activities [see Figure 2.3]. Both elements are however of importance to the organisation of staff
and supporting departments. The transformation of centralised corporations to decentralised organisations results in a corporate transition influencing staff and supporting departments as well. The debate on the benefits of centralised or decentralised departments is a very lively discussion. Besides the corporate discussion about centralisation and concentration, and their opposites – decentralisation and deconcentration – the role of staff and support departments are influenced by the corporate trend to return to the core-business. Corporations raise the question: “What should a corporation be doing itself, and what should it leave to outsiders?” In his perception of the firm, Coase described the role of firms as:

"The firms’ primary raison d’être is that they coordinate some productive tasks – particularly those having a strong inter-temporal dimension and involving close complementarities – better than market or inter-firm relations are capable of."

Although staff and support departments are often qualified as mere overhead they can provide a competitive advantage. The basis of their core competence may be in aligning primary and supporting activities or in aligning merely supporting activities.

### 2.5 Summary

This chapter provided an overview of one of the two stages in the arena of this research. The corporate setting in which departments responsible for managing a corporate real estate portfolio are positioned has changed radically since the 'birth' of multinational corporations. In time corporations transited from functional, centralised organisations...
- mainly active within the domestic constraints - to decentralised, product or market oriented corporations characterised by a high product and geographical diversity of business activities. Parallel to the transitions in the corporate setting the role of staff and supporting departments - including corporate real estate management - changed as well. Given the impact of the corporate setting on the role and position of CREM the various typologies of structures and strategies will play an important role in the analysis of the cases in this research.

2.6

Notes

2 Furber, H. (1976), Rival empires of trade in the orient, 1600-1800, Minneapolis, University of Minnesota Press.
3 The Dutch United East India Corporation, founded in 1602, was one of the first international organisations with subsidiaries all over the world, e.g. Indonesia, Japan, Sri Lanka, Malaysia and South Africa.
8 Jonge, J.A. de (1976), De industrialisatie in Nederland tussen 1850 en 1914, Nijmegen.
11 Jonge, J.A. de (1976), De industrialisatie in Nederland tussen 1850 en 1914, Nijmegen.

In total the Dutch government would initiate eight industrial memoranda during the period 1948-1962.


Ibed, p. 56.

The Enka factories are part of one of the cases analysed for this dissertation: AKZO Nobel.


Ibed.

Leppanen, Rolf (1993), Globalization and Its Organizational Implications, The ABB Experience, Center for International Business Education and Research, College of Business and Management, University of Maryland.


Ibed, p. 263.


44 Leppanen, Rolf (1993), Globalization and Its Organizational Implications, The ABB Experience, Center for International Business Education and Research, College of Business and Management, University of Maryland.


46 Ibid.


51 Ibid.


54 Lievegoed, B.C.J. (1993), Organisaties in ontwikkeling, Lenniscoaat, Rotterdam, achtste druk.


3.1 Introduction

Growing professional attention for managing a corporation’s real estate portfolio is only a recent phenomenon. Since the beginning of this century activities relating to corporate real estate have evolved from a mere side-activity of the firm’s owner/founder to the creation of a separate discipline within business management and the academe. The growth of corporations and the commensurate expansion of their real estate portfolio triggered the need for managerial attention being paid to matters of real estate. Chapter 2 provides an overview of the evolution of multinational corporations and describes the consequences of corporate growth on the structure and strategy of both the corporation in general and staff and support departments in particular. This chapter focuses on the evolution of staff and supporting departments related to managing the corporation’s real estate portfolio.

Although the chronicles of buildings date back to well before the beginning of the modern ages, the history of buildings constructed specifically to accommodate either commercial or industrial activities is brief. Books on architectural history show up to the nineteenth century an emphasis on buildings constructed for the mere glory of the church, the state, or the army. In these cases the necessary financial resources for their construction were more or less guaranteed. Besides lack of capital, the existing legal system did not give individuals the right to own real property.

For a long time industrial activities did not require specialised accommodation, due to the limited size and scale of these activities; they were either accommodated in a partition of one’s house or simply out in the open. The industrial revolution and the subsequent changes in accommodation needs led to the construction of buildings especially for accommodating industrial processes. The growth of industrial activities and the continuous need for accommodation also resulted in managerial attention to real estate. In the 20th century managing a corporation’s real estate developed into a full profession. To be able to assess the present role and position of corporate real estate
management, insight into the evolution of the profession is necessary. The evolution described in this chapter is divided into three distinct parts:

- The pre-industrial era, starting from the beginning of industrial buildings up to the start of the industrial revolution.
- The mass production era, a second phase in the evolution coincides with the industrial revolution and continues through to the end of World War II. The growing range of inventions in the 19th century enabled small family enterprises to expand; having an enormous impact on both the qualitative and quantitative demand for buildings.
- The modern ages, focusing on the modern multinational corporation starting after World War II up to the 1990s.

Following the historical overview in Sections 3.2 up to 3.4, the chapter is completed with a description and definition of the key subject of this dissertation: corporate real estate management (CREM).

### 3.2 The pre-industrial era

Although industry and commerce have been practiced for millennia little is known about the accommodation for these activities. For a long time, city halls, palaces, churches, monasteries or barracks, were used to accommodate administrative activities. An example of these 'cassia deli official' is the Florence Uffizi - built in 1560-1571, by Giorgi Vasari - which was used to accommodate the city government, a number of guilds, and other official organisations. Walton even considers the Uffizi to be Europe's first corporate headquarters since it was the centre for the many business interests of the Medici family [see Figure 3.1].

The Netherlands developed in the 16th and 17th century into one of the most highly developed industrial and commercial centres of Europe. During this 'Golden Era', Amsterdam became one of the world's largest merchantile centres. Buildings displaying this success are the 'Oost-Indië Huis' which acted as corporate headquarters for the Dutch East India Company (Verenigde Oost-Indische Compagnie, VOC), and the Amsterdam exchanges (1608-1611), designed by Hendrik de Keyser.

Continuous growth and expansion of industrial activities, resulted in the beginning of the 18th century in the need for specialised industrial buildings. Early industrial buildings were, however nothing more than gigantic water mills. These buildings were rectangular shaped, had three to five floors, were crowned with a traditional, slanting roof, and positioned along side or built over a river. Products were either manufactured using human and animal labour or utilising natural energy resources such as wind and water. The majority of pre-industrial buildings can be characterised by their modest presence, due to:
• their small scale, related to the size of contemporary humans;
• the clear priority given to the function of the building in the design process;
• their relatively simple design and construction;
• their simple appearance, often influenced by local traditions, and
• their dependency of the presence of local energy sources.

While early industrial designs and locations were determined by the sources of power needed to drive machines, the invention of the steam engine in the 18th century detached the location of industrial buildings from the generation of power\(^6\). As a result of the industrial revolution completely different kinds of buildings were needed. In contrast with the multi-functional building, acting as living-quarters, warehouse, office and production space, specific buildings were erected to accommodate expanding industrial and commercial activities. Replacing the paddle wheel by steam engines enabled corporations to redesign the existing floor plans. Instead of positioning the power source on one of the short sides of the building, in order to provide an outlet for the paddle wheel, an engine could be positioned in the centre of the building. This technical option was used to expand the monumental image of the buildings by erecting the chimney in the centre of the building. In many industrial areas chimneys would dominate the skyline; they would dominate the Dutch skyline for almost a century; from 1870 to 1970.

![Figure 3.1](image)

Some historical examples of corporate real estate. Left: the Italian Uffizzi in Florence and right: the Van Nelle Factory in Rotterdam.

Changes in the nature of business processes and in the size and scale of the activities often triggered the need for new accommodation. The effects of the industrial revolution are especially noticeable in the industrial and trading sectors. At the end of
the 19th century corporations deliberately began to exploit architecture in support of their business activities. The boom in 1860 of the North American insurance industry, for example, enabled insurance firms to commission buildings that not only satisfied their owners growing space requirements but also enhanced the image of insurance firms as benefactors to the society. Expressive buildings were erected either to glorify the company that built them or to hide the less pleasant industrial activities that took place behind their elegant facades.

The first architecturally important office buildings in the Netherlands were built for insurance companies. In 1891 J. van Looy built an office for the life-insurance company ‘New York’ in the centre of Amsterdam. The architecture of the building was meant to be instrumental in building the public confidence in the company. Carel Henny, president of the insurance company ‘De Nederlanden van 1845’, allowed the architect H.P. Berlage a great degree of freedom in building the company’s seven offices and two houses. A similar appreciation for building design is recognisable in industrial buildings; for example the ‘Van Nelle’ Factory designed by the architects Brinkman (1874-1925) and Van der Vlugt (1894-1936) [see Figure 3.1]. The importance of architectural expression in the building is best illustrated by the following words of the factory’s director, Mr. van der Leeuw:

"extra costs should be spent on the finishing touches without the need to demonstrate an immediate profit".

Parallel to the increasing size and complexity of buildings and real estate portfolios in general, the management of corporate real estate portfolios changed as well. The increasing number and geographical spread of properties resulted in the establishment of a separate discipline within corporations. Accommodating early industrial activities was the sole responsibility of the owner of the firm. The lack of complexity of these premises hardly required any professional help for their construction, maintenance and management; the owner/founder of a firm was involved in all its activities, including real estate. Mostly, responsibility for the design of industrial structures tended to be concentrated in the hands of engineers. When architects were employed it was because, for some special reason, the owner had some ideas about the appearance of the building. An architect might be called in to make it look nicer but would not be required to make it more efficient. Public buildings, churches, houses of the wealthy, and the headquarters of industrial and commercial enterprises, for whom appearance was a matter of prestige, provided ample and lucrative work for architects, as distinct from engineers. People commissioning large buildings became, however, increasingly cost conscious, due to their being either industrialist, concerned with profitability, governments, concerned with accountability, or joint stock companies, concerned with both.
Figure 3.2 Various buildings and headquarters in the beginning of this century of the corporate cases reviewed in this research.

FA factory of ENKA in Arnhem (1928) designed by AKU-architect Beenker.

Corporate headquarters of Unilever in Rotterdam (1931), designed by Unilever-architect Mertens.

Corporate headquarters of the Royal Dutch/Shell in The Hague (1917), designed by Nieuwerken (1917).

The first factory Albert Heijn in Zaandam (1911).

Corporate headquarters of the Netherlands Trading Society in Amsterdam (1919) designed by K.P.C. de Bazel.

Corporate headquarters of the Nederlanden est 1845 in The Hague (1927) designed by H. Berlage.
The mass production era

The expansion of industrial activities was an integral part of the social and economic developments at the end of the 19th century. The transition from an agricultural society to an industrial society, combined with the effects of urbanisation and the growth of the population, required huge investments in new buildings. The increase in demand for products, and improvements in the efficiency of production processes, made it more economic to concentrate activities in large new, specialised buildings and distribute products to purchasers by canal, railway or road\(^\text{13}\).

In the early days of industrialisation, the distance between home and factory was small; production was either at home or in the same village. The increasing urbanisation of peasants to cities and industrial regions led to housing problems at the beginning of the 19th century. The more 'enlightened', liberal entrepreneurs realised that the dangers of crowded cities – declining morality, an increasing danger of diseases – could result in
decreased productivity if workers were badly housed. Whether workers houses were built out of philanthropic considerations or based on a pursuit of profit, the working-class house became a new means of attracting labour and as a result contributed to supporting corporate growth. An example of workers houses is Philipsdorp (Philips Village). The small factory in which the brothers Philips started their company grew to cover in between both world wars large parts of Eindhoven and included of factories, offices, theatres, and employees houses. The boom Philips underwent still largely determines the spatial structure of Eindhoven.

At the beginning of the 20th century, ownership of corporations passed into the hands of shareholders, while control of business processes became more the responsibility of professional managers\textsuperscript{14}. Owners of industrial and commercial buildings became more concerned with the profit and loss on the use of a building, instead of focusing on the cost of erecting a building\textsuperscript{15}: buildings were looked upon more as means of doing business. The more capital locked up in buildings the less capital was available for use in the directly productive activities of the business. or if the building was financed by mortgage, the larger the interest payments that would have to be debited against income. This changing attitude towards building costs is illustrated by the following quote by Henry Ford, famous for his buildings, which were reduced to the minimum\textsuperscript{16}:

"We will not put up elaborate buildings as monuments to our success. The interest on the investment and the cost of their up-keep only serve to add uselessly to the costs of what is produced; so these monuments of success are apt to end as tombs. We would prefer to be advertised by our product than by where we make our product."

The growth of corporations in the early 20th century was mainly due to advantages to be gained from increasing economies of scale. In addition to serving domestic markets, many of the early multinational corporations started exporting their products to neighbouring countries. Limited by trade barriers, corporations were forced to set up factories in those countries where they wished to market their products. In response to costly and unreliable international transport and communications, as well as highly differentiated markets, corporations organised themselves as groups of independent national subsidiaries with high degree of operational independence\textsuperscript{17}. Commensurate with such corporate expansion, the real estate portfolios of these corporations expanded too. Many Dutch corporations were consequently faced with a lack of knowledge on real estate and little time to manage the growing need for accommodation. To solve this problem several Dutch multinational corporations founded specialised real estate departments.

Both World War I (1914-1918) and the ‘Great depression’ (1929-1932), however, disrupted the unbridled corporate growth. After recovering from the devastation of World War I, Europe’s economy began to flourish. Radical changes in technology, means of transport, sources of energy, and internationalisation shaped the 1920s and spurred the economy.
The expansion and ‘need’ to express success resulted in the construction of ever bigger, newer, and more beautiful buildings. Between World War I and II there was relatively little need for buildings for new purposes which might have stimulated aesthetic as well as structural innovation\(^{18}\). During the 1930’s many building users began to discover that the running costs of buildings – i.e. maintenance, energy, management – can significantly affect the occupier’s budget\(^{19}\). In the 1930s the U.S. government began to use the principle of life-cycle costing to control the costs and expenses of buildings\(^{20}\). The continued increase in size of industrial and commercial concerns resulted in growing demand for new head office buildings and, possibly, also in an increase in the importance attached to prestige buildings in this field\(^{21}\). As Philip Johnson stated:

“The people with money to build today are corporations; they are our popes and Medicis”\(^{22}\).

3.4

The modern age

3.4.1

From world-War II up to the 1980s

The devastation caused by World War II had a tremendous impact on all of Europe. In order to rebuild the economy and to create employment, the Dutch government actively supported the reconstruction of production facilities. The eventual recovery of the economy and business resulted in a high demand for new buildings and, consequently, led to a growth of the corporate real estate (CRE) departments\(^{23}\). As part of its involvement in the rebuilding of the Dutch economy, the Dutch government actively stimulated the distribution of industrial activities over the Netherlands\(^{24},^{25}\). Long after World War II, the majority of the CRE activities were limited to the corporate home country, and mainly involved guiding the constant need for additional accommodation. While wage rates increased during and after the war until 1954 interest rates remained at approximately pre-war levels. The cost of the use of capital, as indicated by the rate of interest, did not increase substantially until then. This indicates that substitution of labour by capital in the form of plant and buildings might have been more attractive than before the war, although increases in the initial costs of equipment and buildings would have had some counteracting effect. Buildings were almost without exception owned by end-users\(^{26}\). Up to the 1960s, corporations wanting to expand their accommodation were forced to build it themselves; they had to employ all staff necessary for managing the design and construction process. Lack of alternative means for financing real estate also forced corporations to acquire the properties in ownership. In order to finance their real estate corporations either had to finance the assets with equity or had to borrow capital from financial institutions. The corporate focus on growth, and the desire of corporations to concentrate their scarce resources in their core activities, resulted in an increase of demand for rental space and triggered a professionalisation of the real estate market\(^{27}\).
Continuous corporate growth and the increasing geographical spread of business activities between 1960 and 1970 resulted in increasing diversity within many corporate real estate portfolios. Responding to their expansion, corporations transformed their traditional functional structures into structures based on geographical distinctions. Parallel to the structural turn-around, corporations started to decentralise responsibilities from corporate headquarters and central staff departments to national organisations and operating companies. The shift of authority resulted in the need for real estate departments to raise awareness about real estate issues within the corporation. The need to provide added value was enhanced by the emergence of professional real estate consultants, and ever growing corporate desire to allocate scarce (financial) resources to core activities.

The entrance of British real estate investors in the Netherlands at the beginning of the 1960s triggered the professionalisation of the Dutch commercial real estate market. Besides the ‘infiltration’ of British investors, domestic pension funds started to invest capital in commercial real estate. Due to inflation, increasing wealth, changes in the age structure of the population and improving welfare services the invested capital by Dutch institutional investors increased rapidly from only NLG 27,400 million in 1963 to more than NLG 350,000 million in 1984. Decreasing attractiveness of investments in the housing industry triggered institutional investors to look to the commercial market. Parallel to the increasing interest of the institutional investors, other service providers entered the real estate market. The decade between 1960 and 1970 was one during which many current Dutch real-estate service providers were founded. Ter Hart identifies a number of developments that triggered the boom in the Dutch commercial real estate market in the 1960s. In summary, the most important elements were:

- the limited financial means of corporations, combined with increasing costs of construction, resulted in an increase of demand for rented accommodation
- the decreasing availability of office space in central business districts resulted in increased demand for new construction
- the upsurge of the British real estate developers and investors awakened others
- the decreasing attractiveness of the housing industry as an investment, and
- due to inflation and improving welfare services, more capital was available for investment by pension funds. The lower returns in the housing industry forced investors to look to other markets.

As a result of the changes in the Dutch real estate market, the 1960s and 1970s was also a period in which many of the corporations initiated new or renewed real estate activities. An additional trigger was increased management awareness of the running costs of and capital allocated in corporate real estate. The rising costs of accommodation as a result of the 1973 oil crisis stimulated managerial attention for real estate and real estate services [see Figure 3.3]. The transition in demand for accommodation and changes in the real estate market contributed to the recognition of the financial and added value of real estate. The downside of such recognition was however, that
corporations started looking for alternative ways of organising their supporting activities.

Next to pressures arising from cost-consciousness and the first signs of increasing competition in the 1970s corporations were reconsidering the impact of architecture. With the increasing pace of competition, especially those companies that were accommodated in buildings that were meant to typify their product became increasingly interested in their corporate image. Some of the more striking examples of this interest include Herman Hertzberger’s building for the insurance company Centraal Beheer and Albert and Van Huut’s headquarters of the NMB Bank. The latter was perhaps not ‘the most beautiful building in the world’ but rather the best ‘house’ for a specific group of users. When, in 1967, architect Herman Hertzberger began to work on his commission for the insurance company Centraal Beheer the program of requirements that the management had presented to him was quite explicit:

“We must build a workshop for a thousand people. In it a thousand people must work eight hours a day, five days a week. In those five days they thus pass half of their conscious lives in the building. On an average they are in the office longer than at home. This means that the builders are called upon to make a workshop in which a thousand people can feel at home.”

More interesting in this context is probably the comment of Executive Director J.W. Ruiter:
"An insurance company is a labour-intensive company. Is does not look like the use of computers will bring about drastic changes here in the coming decades. The labour factor is thus our most important cost factor. Optimal labour productivity can only be achieved under optimal working conditions. There is every reason therefore to project new construction to insure that good working conditions are obtained. Consequently, liability is very important."

Somewhere amongst such developments there came a time when accommodation for office and production activities became separated. This was of course partly related to the growth of activities within corporations. The increasing demands posed upon office buildings and the growing relatedness of manufacturing buildings to the specific production processes resulted in an increase of the differences between both types of buildings. While in the early industrial era buildings could both accommodate office and manufacturing activities, the increased complexity of business processes has for office buildings in particular led to an increase of demands with regard to accommodation. The integration of installations in the structure of a building has resulted in an increase in the share of those installations in the construction costs, over and above costs related to the increase in complexity of office buildings.

Innovations in, for example communication and information technology changed almost all elements of corporations' business processes. Information technology enabled corporations to locate activities all over the world and quickened the speed of business processes. These technological developments triggered many of the changes that eventually resulted in the evolution of real estate management. The speed of data transmission (e.g. fax, E-mail, Internet) and the accuracy and speed of planning of production and distribution processes (e.g. Materials Requirements Planning, Just-in-Time, Total Quality Management, Enterprise Resource Planning) created the possibility to reduce the life cycle of products.

The rising costs of buildings, combined with the widespread introduction of the computer and of information technology in business processes, and the globalisation of markets, triggered the foundation of the International Facility Management Association (IFMA) in 1980, and were the basis for and establishing a management approach to buildings and building-related-services.

Since 1980, the foundation of IFMA, facility management is gaining increasing attention from both corporate end-users and service providers
Figure 3.4 Various buildings and headquarters of the corporate cases in the 1980s and 1990s.

The corporate headquarters of AKZO-Nobel in Arnhem (1988) designed by B&D architecten.

The corporate headquarters of Unilever in Rotterdam (1992) designed by Jan Hoogstad.


The new corporate headquarters of ABN AMRO in Amsterdam (1999) designed by Henry Cobb.

The accommodation of Philips Electronics in Amsterdam (1995) designed by ZZ+P.
3.4.2 From the 1980s up to today

Up until the 1980s departments managing a corporation’s real estate portfolio benefited from both increasing rental incomes and increasing capital values of their assets. The contribution of real estate departments to the bottom-line of the corporation was evident. Since the late 1980s this position has changed completely. According to Ebert, the 1980s triggered the breakthrough of a new approach to the discipline of corporate real estate management. Increasing prices of real estate assets in the second half of the 1980s, unjustified by the cash flow generated by the assets, resulted in the ‘Japanese bubble economy’. The bursting of that economy in 1991 resulted in a fall in the value of real estate assets not only in Japan but also in the USA. The collapse of the Japanese bubble was one of the elements of the global recession that hit in the period 1992-1996. Besides overvaluation, the real estate market was also faced with a huge surplus of real estate properties. In the late 1970s maturing baby-boomers entered the labour force in huge numbers, thus producing a surge in demand for office space. The high demand for office space, combined with an extremely favourable tax code and massive amounts of capital from institutional and foreign investors, resulted in a huge surplus of office space in the United States. The result of this surplus was a devaluation of office...
buildings there by as much as 50% between 1986 and 1993. Compared with Europe and Asia, the recession was much fiercer in the United States and hit the market some years earlier [see Figure 3.5]40. Corporations reorganised, laid-off employees and had to reconsider expenses. Lower rental prices enabled corporations to relocate activities to cheaper accommodation of at least the same quality. In addition, developments in information and communication technology enabled corporations to relocate back-office activities from high priced locations in central business districts to cheaper locations in the suburbs. Although these developments are especially true for the North American real estate market, the general trends are recognisable in Europe and Asia as well. The surplus of vacant office space and the decline of market rents resulted in a decline in both internal rental incomes and the rate of return on real estate portfolios, not to mention a decrease in the capital value of their assets. This trend was most prominent for office and retail property but soon spread to industrial plants and public sector buildings41.

Figure 3.5

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The ongoing increase in both competition and the rate of innovation forced corporations to re-engineer their business processes and to reduce the costs of doing business. This resulted in laying off thousands of employees and the disposal of thousands of square metres of office and production space. After squeezing expenditures on personnel, real estate as the second highest cost item was ripe for attention. Value incorporated in real estate assets can be as high as 20-25% of total corporate assets42; expenses associated with accommodation vary between 5% and 8% of the total revenue43. The urge to review the costs of doing business influenced the position of real estate within corporations. In order to be able to contribute to the overall results of the corporation, real estate had to be looked upon as a strategic asset. Following the economic downturns and interest rate spikes of the mid-1970s, the early 1980s, and 1989-1990, revealed the inadequate profitability of many large, diversified
corporations. Widespread deregulation, heightened international competition, and increased shareholder activism, forced corporations to re-examine many aspects of their operations in the attempt to increase shareholder value (and in some cases, to defend against raiders). By stepping up the urgency of management search for efficiencies, competitive forces produced an unprecedented number of mergers and acquisitions, divestitures, spin-offs, leveraged buy-outs, and other major recapitalisations. Management of corporations was increasingly ‘paralysed’ by trends such as back-to-core-business, downsizing, lean-production, outsourcing and right sizing. Real estate assets were often a focal point in these restructuring.

Pressure on management from shareholders and from the financial markets – especially through the threat of take-over – has created strong pressure on top management to maximise returns to shareholders. This has been most evident in the ‘Anglo-Saxon business systems” of North America, the UK, and Australia, but is increasingly evident in Continental Europe and Japan. Pressure to increase profitability has meant pressure to reduce costs. The elimination of large numbers of managers and administrative staff, cuts in inventories, increased utilisation of capital equipment, divestment of assets whose returns fall short of cost of capital, and reengineering of processes are all outcomes of preoccupation with the focus on the bottom line.

While economic recession was raging in Western countries, economic growth in many former third-world countries in Southeast Asia, South America, and Africa was increased, creating an enormous sales and labour potential. Globalisation of economies and competition seem to influence the way corporations do business. The opening of markets and economic growth in former developing countries created new possibilities for corporations to expand their operations. Setting up foreign subsidiaries was done either by setting up new factories or by creating joint ventures with local partners. In either case – and whether buildings are leased, co-owned, or solely owned – the amount of facilities, their geographical diversity, and the number of partners increases, resulting in growing complexity of managing the corporation’s real estate portfolio. Given the dynamics of the corporate environment and the changes in the structure of organisations, a different perspective on real estate is required. Being able to respond to both short and long term demands is an essential part of this. According to Nourse inclusion of real estate in the strategic management of the corporation is essential. Joroff even describes real estate as the fifth corporate resource in addition to the four traditional strategic resources: human resources, capital, information, and technology.

3.5 Corporate real estate management

As described in previous sections, the role of and the need for real estate management has changed over the last century. This last section of the chapter on the history of real estate management from a corporate perspective gives a definition and description of
the discipline corporate real estate management (CREM). In addition to the overview provided by previous sections of the evolution and meaning of real estate management from a corporate perspective, it is necessary to focus on a more bounded definition of CREM. From a review of various existing definitions, a proper definition of CREM evolves:

- ‘Corporate real estate’ refers to all the buildings and land in use by an organisation with the sole objective of accommodating its core business.
- ‘Corporate real estate management’ involves all activities relating to the planning, acquisition, management and disposal of corporate real estate.
- ‘Corporate real estate management’ focuses on aligning corporate real estate with corporate strategies and obtaining added value.

Although the issue of managing a corporation’s real estate portfolio is not new, the perspective of CREM is different from the traditional approach. When reviewing the history of real estate departments a distinction can be made between two distinct roles they may play. On the one hand, one can distinguish departments representing ‘owner interests’ and, on the other hand, those promoting the interests and needs of ‘users’. Departments representing the interests of owners are, due to a historic focus on cost control and return on investment, often part of a corporation’s financial department. These financially oriented departments are often characterised by centralised control within corporations, professional staff and regular interaction between the department and the board of directors.\(^5\)

Departments representing ‘user interests’ traditionally focus on design, construction and management of accommodation. Legislative and economic differences between countries often require national or local involvement. Besides rational factors such as costs and regulations, intangible factors such as cultural norms and values influence the design and use of buildings.\(^3\) Due to these differences, the increasing diversity of business activities within multinational corporations, and the tendency to decentralise authority to the individual business-units, real estate departments expressing user interests are mostly characterised by a decentral organisation. Although there are corporations who coordinate the design, construction and management of their real estate portfolio on a global scale, they do so not without strong local involvement. The increasing number of supporting services needed, especially in office environments, resulted in the beginning of the 1980s in the emergence of facility management as a discipline. Due to the nature of its activities and its close involvement with the needs of individual users, facility management departments are often characterised by strong local representation. According to Levy and Matz,\(^5\) there is, however, hardly any link between facility management and strategic planning within a corporation. Even if there are centralised facility management departments, there is hardly any alignment with the corporate strategy.\(^5\) According to Nourse, the approach of facility management exhibits a passive attitude towards owner needs. The
geographical spread of responsibilities and the lack of strategic involvement are of influence on the discipline of facility management.

The distinction between user and owner perspectives is comparable to the distinction between a corporation’s business and its corporate strategy, as described in Section 2.3. Ansoft describes this difference between corporate and business activities by the distinction between long-range planning and strategic planning. Most long-range planning influences activities at the level of the business-unit instead of the corporate level, while strategic planning incorporates the unpredictability of the future for the entire corporation. Similar to the difference in corporate, business and operational strategies, a distinction can be made between different levels of attention for managing its real estate [see Figure 3.6].

![Diagram of corporate strategy and real estate management](image)

Given the change in corporate setting in which the discipline of real estate management has had to operate, an approach is needed that balances both business and real estate interests. CREM is a discipline that balances both owner and user perspectives. CREM can be described as the linking pin between general management at corporate headquarters and facility managers at various operating companies or production sites. Suyker distinguishes four different disciplines related to managing a corporate real estate portfolio:

1. general business management
2. asset management
3. project management and
4. facility management
Each of these activities is an essential element in the life cycle of real estate. Parallel to Suyker, De Jonge presented a framework distinguishing four different perspectives on CREM [see Figure 3.7]57. The first perspective is general management, with the aim of meeting corporate goals with regard to profit and long-term continuity. Hence, as Nourse and Roulac58 argue, real estate decisions will only be effective to the extent to which they support the corporate strategy. The second perspective, asset management, reviews the financial opportunities of real estate in relation to the financial position of the corporation. This perspective is in fact a consequence of balancing and allocating scarce financial resources. Within every corporation a balance has to be found between allocating capital to core business activities or investing in real estate, with in most cases a much lower return on investment59. The cost-control orientation focuses on controlling expenses and achieving financial goals and following guidelines set out by the corporation. The fourth, and last perspective is facility management. This perspective sets out to optimise support of the core business of a corporate end-use and relates to day-to-day needs for accommodation and flexibility.

Figure 3.7
Four perspectives on managing corporate real estate [Jonge, 1997].

In time the perspective on managing a corporation's real estate portfolio changed. Different perspectives on real estate have, in addition, often been addressed from out of different positions within the corporate structure. The effects of changing perspective on corporate real estate, balancing between four perspectives in order to obtain maximum added value for the business, affect the role and position of the departments within a corporate setting. One of the objectives of this research is to analyse the relationship between the role and position of CREM and corporate characteristics in order to pinpoint effects of, and trends in, corporate transformations.
Notes


3 In the 15 century, Francesco di Giorgio used the word ‘officium’ for buildings accommodating various administrative activities.


6 The VOC - the Dutch East India Company - was one of the largest Dutch organisations trading between the Netherlands and the Dutch colonies.


23 The 8th industrial memorandum even concludes that there was a shortage of industrial projects on the construction market for industrial projects. The demand for new facilities was much higher than the supply [Wijers, G.J., 1982, pp. 45-46].

24 Some examples are the establishment of an AKU factory in Emmen, and the foundation of Philips factories in places like Drachten, Stadskanaal [Nijhof, 1996].

25 In response to the active involvement of the Dutch government in recovery plans after World War II, the four 'largest' industrial corporations in the Netherlands founded a discussion forum called ABUP, after the names of the four corporations AKU (AKZO Nobel), BPM (Royal Dutch Shell), Unilever, and Philips. The forum addressed various issues including accommodation and real estate.


30 Other markets refers to both markets outside the Netherlands and to other categories of real estate, e.g., commercial real estate.


33 Becker considers the foundation of the International Facility Management Association in 1980 as the start of facility management as a separate discipline.


35 Staal, G. (1987), Between dictate & design, the architecture of office buildings, Uitgeverij 010 Publishers, Rotterdam, pp. 120-124.


37 The Rembrandt Tower is a multi-tenant building in which Philips Electronics is one of the lessees.

38 Ebert, Larry P. (1993), The Future of Corporate Real Estate, in The Digest of Corporate Real Estate, Ernst & Young, p. 5.


46 ibid.


53 Nourse, Hugh O. (1989), Managerial Real Estate; Corporate Real Estate Asset Management, Prentice Hall, p. 2.

54 Regterschot, Jan (1989), Facility management, Het professioneel besturen van de kantoorhuisvesting, Kluwer Bedrijfswetenschappen, Deventer, p. 129.


59 The average return on investment in office buildings varied between 7 and 8 percent over the period from 1989 to 1995, according to DTZ Zadelhoff (1996).
4.1 Introduction

Chapters 2 and 3 describe the transformation of organisational structures and strategies and its consequences on corporate thinking about real estate. Following the practically oriented overview of the changed setting, Chapter 4 focuses on establishing a theoretical foundation for analysing corporate real estate management (CREM). The absence of fundamental research on real estate management, establishing a theoretical framework has been complicated. Besides the moderate volume of available literature, the content of the books, journals and magazines related to real estate is limited to surveys, prescriptive articles and articles on valuation. Both due to the nature of the objectives of this thesis and due to the lack of research on real estate I have turned to the literature of neighbouring disciplines, such as that of organisational studies and economics.

Section 4.2 contains an overview of available research on CREM, which assists in pinpointing those characteristics that are of importance in analysing its role and position within the corporation. Following the real estate perspective, Section 4.3 reviews the discipline of organisational studies in order to find material for establishing a research framework. Section 4.4 addresses the translation of the organisational theories to managing a corporation's real estate portfolio. Ultimately the chapter is completed with the presentation – in Section 4.5 – of a framework for the analysis of corporate real estate management.

4.2 Analysing corporate real estate research

During the 20th century, real estate management evolved from a mere side issue for the founder-director of a firm into a separate discipline. As described in Chapters 2 and 3 both corporate organisation and corporate attitude towards managing its real estate have evolved in the 19th and 20th century. The identification of managing corporate real estate as a 'problem', however, did not occur before the early 1980s. For a long time,
literature on real estate focused on matters involved with the physical issues of construction and maintenance. Issues relating to corporate economic or organisational matters were hardly addressed.

In 1981, Harvard Real Estate Inc. conducted a real estate survey among 1,377 corporations in the United States\(^4\). The results highlighted a lack of priority given to real estate in both private corporations and public authorities, and their failure to recognise real estate as a key resource\(^3\). A follow-up of the study, in 1987 by Peter Veale\(^4\) of the MIT Laboratory of Architecture and Planning, showed no improvements in the US situation. The MIT study showed that despite their great financial value (about 25 percent of total corporate assets), corporate real estate assets were seriously under managed. Both studies indicated that most companies lacked adequate data and information on these assets, and that there was a lack of diagnostic tools for guiding and evaluating real estate performance\(^5\). Besides identifying the current state of the art, one of the objectives of the MIT study was to identify and characterise those organisations that appear to be most effective in managing their real estate assets. The MIT study compared the performance of organisations managing their real estate as profit centres and as loss centres on the grounds of several dimensions of effectiveness. These dimensions varied from organisational elements to those related to the availability of information. The conclusions of the Harvard and MIT studies led to a new wave of research on CREM.

In 1988, Rutherford and Stone surveyed the members of an international professional organisation of corporate real estate managers\(^6\), in order to investigate the relation between a corporation's rationale for forming a CRE unit, its industry, and the type of CRE unit formed. While Veale had focused on establishing the state of the art, Rutherford and Stone tried to identify dependencies between corporate and CRE characteristics\(^7\). Based on the results of their survey, Rutherford and Stone concluded that although there is evidence of a relation between corporate rationales and the corporate industry, there is no significant relation between corporate industry and the type of CRE unit formed. Gale and Case found a similar result\(^8\). More interesting is perhaps Rutherford and Stone's conclusion that firms forming centralised or decentralised CRE units focus on cost-control in an attempt to use efficiently the real estate held by the corporation. Corporations forming wholly-owned CRE subsidiaries are, however, following a profit strategy in an attempt to make use of corporate real estate in the most profitable way. The formation of a CRE unit is also claimed to have a positive impact on investments and shareholders\(^9\).

Teoh concludes, on the basis of research among 136 corporations listed on the New Zealand Stock exchange that while there is no significant benefit in managing CRE as a profit centre as opposed to a cost centre, those corporations that manage it as either a profit or cost centre are likely to perform better than those that do not\(^10\). In the same period, Pittman and Parker surveyed members of another organisation of CRE professionals\(^11, 12\). Pittman and Parker measured the effectiveness of a CRE program by the divergence between the importance and performance scores of the 22
characteristics incorporated in their survey. The model of effectiveness consisted of four elements: organisation, resources, operating style, and incentives. A statistical analysis of their survey results indicated that a centralised real estate authority and a senior reporting level are significant factors in determining how well importance and performance match. Other elements of influence are: communication of corporate plans, the existence of a formal CRE business plan and a profit centre structure for the real estate department.

Van Hecke argues, in agreement with the conclusions of Pittman and Parker and Rutherford and Stone, that the nature of activities and responsibilities of CREM is influenced by the organisational position of the CRE unit. Similar to Goold et al., Van Hecke provides an explanation for the existence and difference between supporting and staff departments. Supporting departments perform activities adapted from the operational core while staff departments are more closely related to the strategic apex. In his analysis van Hecke identifies a strong relationship between the changing demands and structure of an organisation and the role and position of CREM. Each organisation is unique, business processes differ, management styles differ, so why would supporting processes not be different? Each organisation will be looking for its unique implementation of CREM. Avis et al. also stress the impact of the structure of a CRE department, although they conclude that it is not possible to indicate the most appropriate organisational structure in order to undertake real estate functions effectively. They also indicate that it is important for the CRE unit to be organised in such a way that it matches the current operational structure of the corporation, whether organised along geographical, product, or functional lines.

An important element in managing a corporation’s real estate portfolio is the linkage of real estate to the corporate strategy. Surveys of corporate managers have revealed a curious ignorance about and lack of interest in relating their real property assets to the overall strategies that guide their businesses. The result of a survey by Arthur Andersen in 1993 indicated that US senior management regarded real estate to be the least important function out of a list of eight corporate functions. The two most important contributions of CREM were 'meeting the needs of operating units' and 'return on assets'. A similar survey by Arthur Andersen in Europe in 1995 showed similar results. However these contributions can only be achieved if explicit consideration is given to how real estate strategy supports corporate strategy and the sub-strategies of component elements of the corporation.

In 1995 Delft University of Technology studied the position and activities of corporate real estate managers in the Netherlands. A questionnaire was sent to 411 of the largest companies in the Netherlands; 156 of these firms (38 percent) responded. The main conclusions of the survey were:
  * most real estate managers in the Netherlands can be described as operationally oriented;
• there are major differences between the industry and the services sector;
• in most firms corporate real estate is still organised as a cost centre; and
• 40 percent of the CRE managers said they often use outside CRE services, and most
companies predicted an increase of the use of outside services in the near future.

As indicated in the introduction of this thesis (see Chapter 1) the majority of the
research is primarily focused at describing a state of art of the current role and position
of CRE departments. The corporate setting is regarded as a mere contingency. In order to
find out to what degree the role and position and CREM is determined by the corporate
setting a more thorough insight is needed of organisational studies and their impact on
managing corporate real estate.

4.3 Implications of organisational studies

Parallel to the evolution of the industrial organisation, management started to evolve as
a science. The organisation and industrial processes unfolded as a field of study as the
industrial revolution developed. During the industrial revolution economic theorists
such as Adam Smith (1723-1790) and Jean-Baptiste Say (1767-1832) devoted many pages to
the running of enterprises21. Organisational science is linked to the nineteenth century
thinkers who attempted to anticipate and interpret the nascent structural and
ideological transformations wrought by industrial capitalism22. Transformation from
relatively small-scale and simple forms of production and administration to large-scale
organisational units that moved beyond the usual administrative capacity required
more personal and direct forms of coordination23. Principles of efficient and effective
functioning were promulgated as an axiom to direct all forms of organisational practice
and analysis. This new period, which lasted until the 1930s, has been named the Mass
Production era24.

The introduction of mass production at the beginning of the 20th century resulted in
the demand for the creation of an elite of managers and a new, formal science of
management theory25. These were the days of Taylor’s ‘scientific management’ and
Fayol’s ‘principles of organisations’. Henry Taylor started to analyse the organisation of
production processes in a scientific manner in order to increase productivity. Taylor’s
scientific management, although focused on time and motion studies, resulted in a
separation of supervisors and workers, thus creating a new organisational layer:
management26. In Germany, avant garde thinkers made scientific management a cult.
Bauhaus architects such as Walter Gropius and Ludwig Hilberseimer tried to marry new
organisational thinking with the design of buildings; while Max Weber, the father of
organisational theory, studied the efficiency of different types of bureaucracy27. In the
early 1940s, Mayo and Roethlisberger looked at the effect of physical setting on the
workers. Their Hawthorne Plant studies were later extended to social aspects of the
workplace28.
Many early management theories were:
- based on day-to-day practice
- based on extensive power of the founder as a starting point
- aimed at one solution for each setting.

The early management theories of Taylor and Mayo would remain of value until World War II. As Western European economies grew, problems arose which could not be solved by the then current theories of scientific management and human relations. Since the 1950s, the challenges increasingly became simultaneous: the need for revival of entrepreneurship, increasing intensity of global competition, and widespread societal involvement in determining how firms should be run and their role in post-industrial society.

As companies developed new strategic approaches and redefined management roles in response to their changing environment, they stimulated a wave of research that sought to enrich and even redefine the theory of the firm. It was in this golden era of research, in the late 1950s and early 1960s that many of the foundations of current management theory were laid. In response to the problems of managing large complex corporations, interest in business strategy emerged in the United States, in an attempt to relate the organisation to its changing environment. The primary problem for continuously expanding corporations was the coordination of the increasing product and geographical diversity of their business activities. Structural changes were needed to solve those problems and to maximise corporate economic performance. Drucker believed that the structure of the company should follow its strategy. Organisations are not an end in themselves, but a means to the end of business performance and business results. Alfred Chandler described how corporations evolved in three stages of development from a functional structure to a divisional form, and how the role of the corporate centre changed as well. At first, organisations are small. Increased volume and additional locations create problems. Organisations become a unit firm, with an administrative office to handle inter-unit coordination, specialisation and standardisation. The second stage is vertical integration. Corporations broaden their scope and strive for economies of scale by acquiring suppliers and/or distributors. Vertical integration creates new problems in moving goods and materials through the organisation’s various functions. Responding to these problems, corporations evolve into functional organisations, with finance, marketing, production and other subdivisions, and formalised budgeting and planning systems. In the third stage, corporations expand into different industries and diversify their products. The result is a multidivisional firm that operates almost as a collection of smaller businesses.

Parallel to the development of corporate diversification, researchers also have been stimulated in their organisational analysis of diversification strategies and their effects on firm performance levels. In their paper to the conference on Global Organisations, Tallman et al. conclude that the performance of a multinational corporation is closely related to its degree of geographical dispersion and that there is an explicit link between strategy and structure of multinational corporations. In another study Li and
Tallman analysed the impact of both product and international market diversification on certain measures of performance of multinational corporations. In order to determine the impact Li and Tallman applied measures with regard to:

- product diversification (Wrigley/Rumelt management strategy categories and Herfindahl type measures of product categories);
- geographical diversification (ratio of foreign sales to total assets and number of separate national subsidiaries);
- performance (Return on Assets and Return on Sales).

Despite criticism various researchers have indicated the existence of a relationship between these three measures. Geographical and product diversification can be identified as being of critical importance to the performance of a multinational corporation. The importance of both of these items, as well as the evolution of a corporation and its (staff) functions was also indicated by Vernon and Wells. They claimed that three types of variables are almost invariably involved in creating an organisation to serve the corporation's purposes:

1. Functions, which are generally defined as production, finance, marketing, control, personnel, research, and government regulations
2. Products or product groups, which are generally grouped according to some key product or market characteristic; so that the items in any such group are more like each other with respect to the key characteristic than like those in any other group.
3. Countries or areas, which are generally grouped on the same principle as in 2. of maximum homogeneity within a class.

Despite all the theories there have been some visible regularities in the organisational change of multinational corporations. Once a firm establishes a technological lead in some product, certain characteristic patterns are likely to ensue as the product matures. These patterns commonly referred to under rubric of the 'product life-cycle'. The product life-cycle, the grandfather of concepts in the industry evolution, describes the phases of a corporation over time as related to increase in sales. The cycle has been criticised by many because of its attempt to describe a pattern of corporate evolution that will invariably occur. While there are differences in the number of stages proposed and the dimensions used to describe specific stages, most models of the product life cycle suggest a fairly common pattern of development, comprising stages of introduction, growth, maturity and decline. Life cycle proponents argue that as firms move through life cycle stages, differing problems must be addressed, resulting in the need for different management skills, priorities, and structural configurations. In each of the stages in the life cycle different strategies are needed. In his elaboration on the evolution of industry Porter describes the changes in various corporate variables during the product life-cycle [see Table 4.1]. The relevance of the product life-cycle is also displayed by Nourse, who relates the various phases of the cycle to both requirements with regard to real estate and to the structure of the real estate organisation.
Table 4.1

Corporate characteristics during the phases of the product life cycle [Porter, 1980]^{13}

<table>
<thead>
<tr>
<th></th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>Short production runs</td>
<td>Shift toward mass production</td>
<td>Increasing stability of manufacturing process</td>
<td>Substantial over-capacity Mass production</td>
</tr>
<tr>
<td></td>
<td>High skilled-labour content</td>
<td></td>
<td>Lower labour skills Long production runs with stable techniques</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High production costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Foreign trade</strong></td>
<td>Some exports</td>
<td>Significant exports</td>
<td>Falling exports</td>
<td>No exports</td>
</tr>
<tr>
<td></td>
<td>Few imports</td>
<td></td>
<td>Significant impacts</td>
<td>Significant impacts</td>
</tr>
<tr>
<td><strong>Overall strategy</strong></td>
<td>Best period to increase market share</td>
<td>Practical to change price or quality image Marketing the key function</td>
<td>Bad time to increase market share Competitive costs becomes key Marketing effectiveness key</td>
<td>Cost control key</td>
</tr>
<tr>
<td></td>
<td>R&amp;D and engineering are key functions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>Few companies</td>
<td>Entry many competitors</td>
<td>Price competition</td>
<td>Exits fewer competitors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lots of mergers and casualties</td>
<td>Shakeout Increase in private brands</td>
<td></td>
</tr>
</tbody>
</table>
indicated by Gadjent and Hook\textsuperscript{52}, the need for real estate and the role and position of the CRE function evolves parallel to the evolution of a corporation through its life cycle.

The development of a corporation from a small domestic company to a global network organisation can be described by several different phases. In most models the corporation expands in step with saturation of markets\textsuperscript{54}. If the domestic market is saturated, a corporation has no other choice but to expanding abroad. Non-sequential, Bartlett and Ghoshal distinguish the evolution of corporations in four non-sequential models, which they relate to management and alignment of subsidiaries and corporate staff\textsuperscript{35}. Although the various life cycles related to product and geographical diversification seem different, there is a great deal of congruence with regard to corporate characteristics.

In the early 1980s the majority of researchers in management studies focused on the industry analysis framework associated with the work of Michael Porter and Henry Mintzberg. Organisational research focused primarily on the structure of industrial sectors within which a firm operates to explain heterogeneity in the firm’s performance. During the late 1980s and early 1990s interest in the analysis of competitive advantage shifted towards the internal aspects of the firm. Competitive advantage was seen as depending less upon a firm’s choices in market positioning and more upon the exploitation of unique internal resources and capabilities\textsuperscript{56}. Whereas in the industry analysis framework, the firm is treated as essentially a black box, strategy researchers are now turning towards an approach that places emphasis on the firm’s endowment of capabilities for understanding the sources of sustained competitive advantages\textsuperscript{57}. Resources and capabilities are seen as the principal basis for strategy and the primary determinants of firm profitability. Even advocates of the ‘positionings’ approach are now addressing the fact that strategy should rest on unique activities, and that operational effectiveness is a necessary part of management\textsuperscript{58}. The ‘traditional’ industry analysis approach has been undermined by three important factors\textsuperscript{59}:

- the increase in competitive pressure across industries due to increased international competition and deregulation has meant that industries are subject to severe price competition
- technological and demand changes are causing industry boundaries to become increasingly ill defined
- empirical research has failed to confirm a relationship between profitability and industry structures presumed to confer market power.

As indicated in the above reasoning, the focus on the corporate performance has in time shifted from a focus on the external environment to the internal resources and capabilities of a firm. One of the most important theories addressing the impact and importance of managing resources and capabilities is the resource-based view. Over time, the resource-based view of the firm emerged as an influential theory for the
4.4 The resource-based view

The importance of valuing corporate resources and capabilities is captured in the resource-based view (RBV)\(^2\). The RBV of the firm states that a corporation can (and should) use superior organisational resources and capabilities to modify the industry structure and/or changes the competitive rules of the game\(^3\). In contrary to other streams in organisational studies, RBV is based upon the internal characteristics of the firm. Dierickx and Cool argue that the RBV of the firm postulates that successful firms within an industry have been able to create or acquire valuable resources that are difficult for their competitors to imitate\(^4\). RBV focuses on the resources and capabilities of a firm as its primary unit of analysis; RBV argues that balance between resources, strategy, and environment drives performance results\(^5\). RBV is described as:
• a theory that builds on the assumption that resources and capabilities can vary significantly across firms and that these differences can be stable\textsuperscript{66};
• a focus on unique firm-specific resources, rather than industry structure, that addresses both competitive advantage and the strategies intended to exploit such advantage\textsuperscript{67};
• suggesting that the complex organisational systems that are the basis for strategic advantage derive from the unique historical backgrounds of individual firms\textsuperscript{68}.

To date the implications of the RBV for strategic management have been unclear. Grant provides two reasons for this lack of clarity\textsuperscript{69}. First, the various contributions lack a single integrating framework. Second, little effort has been made to develop the practical implications of the RBV.

One of the concepts that has been at the core of the RBV is that of synergy. Although not using the exact word, Edith Penrose addressed two basic forms of synergy\textsuperscript{70}. She described the benefits for the corporation of asset sharing and asset transfer. Similar to the concept of quality, the concept of synergy is fraught with variation in its definition. The idea underlying the concept is represented by various notions as 'related diversification'\textsuperscript{71}, 'corporate coherence'\textsuperscript{72}, 'parental advantage'\textsuperscript{73} and 'core competence'\textsuperscript{74}. Based on the ancient Greek word 'synergos', (meaning cooperating), the word synergy was introduced into management literature in 1965 by Igor Ansoff as a measure of joint effects\textsuperscript{75}. The synergy concept stresses that advantages are created when economics of scale and speed are combined with administrative coordination\textsuperscript{76}. Synergy focuses on coordination of existing structures and on how managers can optimise interrelationships between parts of an organisation\textsuperscript{77}. Argenti defines synergy, as the concept that the combination of two or more different businesses, activities or processes will create an overall value that is greater than the sum of the individual parts\textsuperscript{78}. The translation and transformation of the mere concept of synergy to recognisable and applicable products and services within organisations has proven to be difficult. Table 4.2 provides an overview of a number of classifications of the concept of synergy. Although many have studied the concept and implementation of synergy, most classifications used have been adaptations of Penrose's distinction.

Besides this classic difference in the nature of synergy, a distinction can be made between the parts of the organisation involved in the realisation of synergy. Based on differences in the interrelationships concerned, a distinction can be made between synergy created through inter-business transactions and that created through aligning transactions between the business-units and the corporate headquarters. Foss and Iversen stress the distinction between horizontal and vertical synergy\textsuperscript{80}. Horizontal synergy has received attention in economics literature under the category of economics of scope. Foss and Iversen provide a clear description of both forms of synergy.
<table>
<thead>
<tr>
<th>Authors</th>
<th>Classification of synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ansoff</td>
<td>• sales synergy&lt;br&gt;• operating synergy&lt;br&gt;• investment synergy&lt;br&gt;• management synergy</td>
</tr>
<tr>
<td>Porter</td>
<td>• portfolio management&lt;br&gt;• restructuring&lt;br&gt;• transferring skills&lt;br&gt;• sharing activities</td>
</tr>
<tr>
<td>Dierickx and Cool</td>
<td>• time compression diseconomies&lt;br&gt;• asset mass efficiencies&lt;br&gt;• asset stock erosion&lt;br&gt;• asset stock interconnectedness&lt;br&gt;• causal ambiguity</td>
</tr>
<tr>
<td>Markides and Williamson</td>
<td>• asset improvement&lt;br&gt;• asset creation&lt;br&gt;• asset fission</td>
</tr>
<tr>
<td>Goold, Campbell, and Alexander</td>
<td>• stand-alone influence&lt;br&gt;• linkage influence&lt;br&gt;• functional and services influence&lt;br&gt;• corporate development activities</td>
</tr>
<tr>
<td>Miller</td>
<td>• economies of integration&lt;br&gt;• economies of scale&lt;br&gt;• economies of allocation&lt;br&gt;• managerial competence&lt;br&gt;• brand equity creation and sharing</td>
</tr>
</tbody>
</table>

**Horizontal synergies**, refers to parallel activities in different business-units (e.g. between distribution of Product A and a distribution of Product B). This kind of synergy has received the widest attention in economics literature, namely under the category of economies of scope and usually referring to shared physical resources such as machinery, tools, buildings and other fixed, indivisible investments. Other examples include a shared sales force or sharing administrative functions, such accounting and human resource management.
**Vertical synergy** consists of synergies between complementary assets contributing to a single line of business. These are either synergies between sequential or successive activities, or synergies between competencies that contribute to the same activity. When all the relevant assets for achieving vertical synergy are under the control of divisional management, the role of corporate headquarters must be to provide strong incentives for their efficient utilisation. In other situations, complementary assets also have to be shared with other divisions, and their use must therefore be coordinated by corporate headquarters.

The issues incorporated in the above descriptions by Foss and Iversen are similar to the classifications of parental advantage by Goold, Campbell and Alexander [see Chapter 2]81. Both 'stand alone influence' and 'central functions and services' reflect the concept of vertical synergy. Corporate striving towards creating horizontal synergy is incorporated in 'linkage influence'. The fourth type – 'corporate development' – of parental value is without any form of synergy. Goold, Campbell and Alexander state that the most important role of a corporate parent lies in influencing the performance of the businesses as stand-alone entities. If there is no added value in joining business-units together in one corporation, the rationale of the corporate existence is lacking82. If there is no synergy, there is really no reason to keep the holding together.

![Figure 4.2](image)

**Figure 4.2**
Horizontal and vertical synergy incorporated in an organisation [Wijers, 1994]83

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**4.5 Managing the fifth resource: corporate real estate**

As indicated in previous sections, corporate competitive advantage is shifting towards aligning internal resources and capabilities. An organisation's resource choices are an integral component of its strategy and structure84. Its set of valuable resources includes,
for example, all assets, capabilities, organisational processes, firm attributes, information and knowledge controlled by the firm that improve its efficiency and effectiveness.\textsuperscript{85} Ambit and Schoemaker use the term strategic asset in order to refer to resources that are valuable, rare, and imperfectly imitable.\textsuperscript{86} Markides and Williamson, in common with Prahalad and Hamel and Teece et al. describe strategic assets as assets that underpin a firm’s cost or differentiation advantage in a particular market and – this is essential to their reasoning – are imperfectly imitable, imperfectly substitutable, and imperfectly tradable.\textsuperscript{87} Although real estate is often not explicitly incorporated in overviews of corporate resources and capabilities, real estate is seen by some as a part of the physical resources of a corporation.\textsuperscript{88} Elfrink and Paardekoper describe seven characteristics of real estate that explain the complexity of real estate as a discipline:\textsuperscript{89}

1. Immobility, i.e. real estate is not movable
2. Heterogeneity, i.e. every object is unique
3. Durability
4. Local market conditions rule
5. Opacity, i.e. availability of transaction data is mostly restricted
6. Two different markets; a user market and an investor market
7. Dominant role corporate investors

Given Elfrink and Paardekoper’s characteristics, real estate meets all of the classifications indicated by Amit and Schoemaker, Markides and Williamson, Prahalad and Hamel, and Teece et al.\textsuperscript{90} The impact of real estate on the corporate balance sheet is an evident expression of the (financial) value of real estate. Nourse and Roulac argue that real estate is 25 percent or more of corporate assets, and occupancy costs represent 40 to 50 percent of net operating incomes.\textsuperscript{91} Based on a survey of 800 organisations in the United Kingdom, Avis, Gibson and Watts state that more than half the organisations surveyed claimed to have real estate worth 30 percent or more of their total assets.\textsuperscript{92} Within many corporations the cost of real estate is second only to payroll costs.\textsuperscript{91} Although the survey results date back to the beginning of the 1990s, and much has changed since then, both studies still reveal real estate as an important element in the cost of doing business.

The value of corporate real estate is, however, no longer merely determined on the basis of financial and economic values and criteria. While traditional financial performance measures worked well in the industrial era corporations are nowadays looking for a balanced presentation of both financial and operational measures.\textsuperscript{94} In their ‘Balanced Score Card’, Kaplan and Norton describe the performance of a corporation as being a combination of financial, internal business, customer, and innovation and learning perspectives. In addition to the financial value of real estate, unique qualities such as the location or the design of a building qualify real estate an asset that can be hard to imitate, substitute, or to trade.
### Table 4.3
Elements of added value of real estate [Jonge, 1996]

| 1. Increasing productivity | • Offering adequate accommodation  
|                           | • Site selection  
|                           | • Introducing alternative workplaces  
|                           | • Reducing absence of leave  
| 2. Cost reduction         | • Creating insight into cost structure  
|                           | • More efficient use of workplaces  
|                           | • Controlling costs of financing  
| 3. Risk control           | • Retaining a flexible real estate portfolio  
|                           | • Selecting suitable locations  
|                           | • Controlling the value development of the real estate portfolio  
|                           | • Controlling process risks during (re)construction  
|                           | • Controlling environmental aspects and labour conditions  
| 4. Increase of value      | • Timely purchase and sale of real estate  
|                           | • Redevelopment of obsolete properties  
|                           | • Knowledge of and insight into real estate market  
| 5. Increase of flexibility| • Organisational measures (working hours, occupancy rates)  
|                           | • Legal/financial measures (mix own/rent/lease)  
| 6. Changing the culture   | • Introducing workplace innovations  
| 7. PR and marketing       | • Selection of branch locations  
|                           | • Image of buildings  
|                           | • Governing corporate identity  

The physical image of a building may advertise and attract attention to a firm’s goods and services. When buildings reflect the purpose of business and encourage important work relationships they can become significant elements of corporate strategy. or, as indicated by Duffy:

"Designed well, however, office buildings can play a pivotal role in the business success. The right fit-out, for example, might call for greater initial capital investment, but is easily justified when spectacular reductions are made in revenue wasted on space per year."  

In agreement with Duffy, Peter Lawrence states that architecture can support corporate strategy or sabotage the best business plan. He argues that buildings not only
communicate a company's identity to its employees and to its range of constituencies, but they create physical conditions that affect worker productivity, so that those tasks can be accomplished with greater ease and efficiency. Vroon argues that the productivity in office environments could increase by 30 percent if employees occupied a suitable workplace\. In an effort to pinpoint the 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\. [see Table 4.3].

An important element in the effectuation of these elements of added value of real estate is the presence of in-house knowledge and skills with regard to real estate. For a long time many corporate real estate managers considered the ultimate definition of 'adding value' and of their own management role merely as that of making decisions and taking action\. In line with the changing perspective on 'added value', real estate managers have to refocus from a traditional transaction-oriented focus on real estate to a focus on the interests of the corporate stakeholders. This urge to argue their raison d'être is to a large extend triggered by the changes in the corporate setting and the increasing pressure on staff and supporting departments.

The use of horizontal and vertical synergy as base for products and services provides a central CREM department a competitive advantage hard to imitate by both decentral departments and outside service providers. Although the usability of synergy within corporations is largely depending on the specific strategy and structure of each corporation the above listing can act as a guideline for finding ways to add value to the bottom line of the corporation. For example, while an increasing geographical diversity of business activities may interfere with efforts to create economies of scale through in-house services it might open up opportunities to establish alliances with global service providers working with local representatives. Moss Kanter describes a number of benefits for business-units that can be provided by the corporation at large\. These forms of added value are:

- economies of scale from sharing certain functions or facilities
- management competence, including a larger pool for business-units to draw on and sources of expertise to help the unit make better decisions
- broader career opportunities to help attract and retain the best people
- staff services dedicated to the specific needs of the business-units
- information exchange about technology or markets, broadening the intelligence base available to each business
- capacity to look ahead and consider the future across an array of businesses, while business-units are immersed in daily operations
- common values and standards that raise performance

Many of the above elements of added value are especially beneficial to large corporations. Larger corporations, managing an extensive real estate portfolio, have
more opportunities to use scale of power, as well as to create economies of scale, compared to small businesses.

Large scale corporations can achieve lower production costs as a consequence of volume, spreading certain central administrative and operating costs over larger number of workers, spreading costs of highly-specialised expertise over a larger business space, and amortising investments in systems, research and strategic management over a larger enterprise. Manning and Roulac distinguish five power and economy advantages of scale that are specific to larger corporations:

- lower cost of capital due to their greater financial strength and access to the public capital markets
- greater economic power in negotiating for land and space, and with outsource service providers
- ability to afford resources (management, know-how, databases, etc.) to better manage their CRE
- facility location decisions often result in ‘agglomeration’ value accretion to the surrounding land arising from the planned growth in business activity. Large companies can legally profit from own ‘inside information’ about the likely impacts on the land surrounding its facilities when companies ‘holds’ additional adjacent land.
- additional investment in surplus facility-site infrastructure can contribute to shareholder wealth through the sale of excess infrastructure to others

In order to pinpoint the nature of added value implemented within the corporations an overview is made of eligible elements of added value. Based on the above elaborations with regard to the added value of corporate headquarters and interviews with experts an overview is made of capabilities needed to manage the corporate real estate portfolio. All of the products and services in Table 4.4 display some kind of added value with regard to managing a corporation’s real estate portfolio. The listing of elements of added value of CREM is to be used in conjunction with the classification of the corporate characteristics to determine the added value of corporate real estate management and to pinpoint dependencies between the characteristics of corporations and the nature of that added value.
<table>
<thead>
<tr>
<th>Knowledge of business and management processes</th>
<th>The mere fact that a centralised real estate unit is on top of an organisation often provides the unit the competitive advantage of being familiar with the specific demands of the business processes. An overall perspective on managing a corporation's real estate portfolio also enables the unit to profit from experiences in the various operating companies, and create a learning organisation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale in acquisition of products and services</td>
<td>Coordination of acquisition may result in economies of scale in negotiating advantages. Instead of incidental and individual acquisitions a central unit is able to purchase larger quantities and offer the prospect of future purchases. The scale of the acquisitions may also offer a better starting point in establishing strategic alliances.</td>
</tr>
<tr>
<td>Alignment in use and management of real estate and real estate services</td>
<td>Parallel to creating economies of scale in the acquisition process, a corporation can benefit from aligning the usage of resources and capabilities. Sharing services, facilities, locations, and knowledge provide a corporation the opportunity to obtain economies of scope; and to optimise products and services.</td>
</tr>
<tr>
<td>Collection of scarce expertise</td>
<td>In most corporations CREM units can rely on extensive knowledge on buildings, procedures and contacts. Scarce expertise can also include the ability to retain professionals, invest in long term research programs, and to avoid that expertise is scattered all-over the corporation. Moreover a up-to-date information system, a key condition for strategic planning, can provide data on various real estate markets, and can be the starting point for (internal) benchmark studies.</td>
</tr>
<tr>
<td>Confidentiality and availability of information</td>
<td>Because many corporations might not regard real estate as being a critical resource, information regarding financial and technical details is often concealed in clouds. Information can form the basis for collaborative decision-making processes, transforming CREM to become catalyst for the strategic thinking about CRE.</td>
</tr>
<tr>
<td>Formal and informal networks</td>
<td>The presence of both a formal and informal network within the corporation provides opportunities to get better access to information and to be aware of changes in business and management processes. The extensive external network often displays the broader functional and geographical scope of a centralised unit.</td>
</tr>
<tr>
<td>Risk sharing</td>
<td>Risk sharing may both refer to controlling process risk during construction activities and the risks resulting out of managing a real estate portfolio. Risks can occur during all phases of a building's life cycle. Delays in construction time, occupational health risks, unexpected ending of lease contracts, and inflexibility of real estate are examples of risks in CREM. Coordination of activities and data is an important element in controlling the risks in managing a (global) corporate real estate portfolio.</td>
</tr>
</tbody>
</table>
4.6 Towards a conceptual framework

Based on the above elaboration of the resource-based view and the concept of synergy, the conclusions of previous studies on corporate real estate management and the elaboration on the corporate setting in Chapter 2, characteristic variables can be identified that are of influence on the implementation of CREM in multinational corporations. Reviewing the characteristics a distinction can be made between structure- and strategy-related variables.

Structure-related variables address issues that concern the position of the CREM department within the organisational structure of the corporation. In addition, structure-related variables focus on the structural characteristics of the corporation in general. The above reasoning provided arguments in favour of dependency between the role and position of CREM and the structure of the corporations they are a part of delineation of this research. The deliberate inclusion of both services and industrial corporations and the required size scale of the corporations create a category of general variables. Given the fact that these characteristics are 'automatically' included they are not incorporated in the analysis of the cases.

Table 4.5 depicts this distinction in the nature of the variables and in the two perspectives; first a focus on corporate real estate and second on the multinational corporation. To analyse the cases, information was gathered on all variables (if available) for all three time frames. The analysis ultimately focuses both on the status of the variables in the different time frames and on transitions in time. Each of the variables is used as part of the analysis of the corporate cases and is addressed in the analyses in Chapter 6 and Chapter 7.
### Table 4.5
Overview of variables in analyzing the cases

<table>
<thead>
<tr>
<th>Managing a corporate real estate portfolio</th>
<th>Managing a multinational corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General variables</strong></td>
<td></td>
</tr>
<tr>
<td>• Value portfolio</td>
<td>• Number of employees</td>
</tr>
<tr>
<td>• Nature of CRE</td>
<td>• Turnover</td>
</tr>
<tr>
<td>• Industry</td>
<td>• Industry</td>
</tr>
<tr>
<td><strong>Structure related variables</strong></td>
<td></td>
</tr>
<tr>
<td>• Position</td>
<td>• Internal relationships</td>
</tr>
<tr>
<td>• Clients</td>
<td>• Orientation</td>
</tr>
<tr>
<td>• Centralisation</td>
<td>• Type</td>
</tr>
<tr>
<td>• Role</td>
<td>• Spread</td>
</tr>
<tr>
<td>• Concentration</td>
<td></td>
</tr>
<tr>
<td><strong>Strategy related variables</strong></td>
<td></td>
</tr>
<tr>
<td>• CRE strategy</td>
<td>• Corporate attitude</td>
</tr>
<tr>
<td>• Authority</td>
<td>• Corporate strategy</td>
</tr>
<tr>
<td>• Objective</td>
<td>• Changes/Events</td>
</tr>
<tr>
<td>• Nature of synergy</td>
<td></td>
</tr>
</tbody>
</table>

### Notes


3. Avis, M., V. Gibson, and J. Watts (1989), Managing operational property assets, University of Reading.


10 Ibid.


12 Pittman and Parker (1989) surveyed the members of the International Development & Research Council (IDRC).


15 Avis, M., V. Gibson, and J. Watts (1989), Managing operational property assets, University of Reading, p. 53.


23 Ibid.


37 Amburey and Darin's (1994, p. 1443) research supports the existence of a hierarchical relationship between strategy and structure: strategy is a much more important determinant of structure than structure is of strategy.


42 Geringer, Beamish, and da Costa show that greater geographical diversification, measured by foreign sales, is a significant predictor of superior performance for a sample of US firms. They also find that product diversification is negatively correlated to the same performance measures. Franko found that unrelated product diversification was negatively related to performance.


45 Ibid, p. 36


63 Ibid.


65 Tallman, Stephen B., Michael Geringer, Elidon Li (1994), The resource-based view of the firm and internationalization: a structural equation model, Brigham Young University/University of Utah CIBER, working paper 94-2 submitted to the conference on Global organisations, University of Michigan, p. 3.


68 Fladmo-Lindquist, Karin, Stephen Tallman (1992), Resource-based strategy and competitive advantage among multinationals, working paper 93-6, David Eccles School of Business, Salt Lake City, p. 3; and Bartlett, Christopher A., Sumantra Ghoshal (1993), Transnational Management, Grensoverschrijdend management, Academic Services, p. 87.


80 Foss, Nicolai J., Mikael Iversen (1997), Promoting synergies in multiproduct firms: toward a resource-based view, Copenhagen Business School, Copenhagen.


83 Ibid.


92  Avis, M.V. Gibson, and J.Watts (1989), Managing operational property assets, University of Reading.


97  Lawrence, Peter (1989), Building design: more than meets the eye, The journal of business strategy, July/August 1989.


100 Becker, Franklin (1993), Adding value through process management, Site-selection, December, pp. 1395-1399.


103 Ibid.

104 Ernst & Young (1993), The Digest of Corporate Real Estate, Ernst & Young.
5.1 Introduction

The first three chapters of this thesis provide both an introduction and a background to the issue of corporate real estate management. They provide insight into the constraints influencing the evolution of corporate real estate management. In Chapter 4 the theoretical framework needed to analyse the cases has been established. This chapter, Chapter 5, focuses on each of the selected corporations that cooperated as a case for this dissertation.

Sections 5.2 to 5.9 provide brief sketches of all corporate case studies, highlighting the evolution and the current status of both the corporations in general and their corporate real estate management. Within each of the sketches a summary of figures is included presenting a brief financial backgrounder. All of the figures in this chapter are based on the annual reports for the fiscal year 1998 and are converted to Euro’s on the basis of the exchange rate of 1 Euro = 2.20371 NLG.

5.2 ABN AMRO Bank NV

ABN AMRO Holding NV grew from a chain of mergers and take-overs between organisations that all originated from one and the same merchant tradition. The final merger, between Algemene Bank Nederland and Amsterdam-Rotterdam Bank (themselves the result of mergers), took place in 1991. The merger created the largest bank in the Netherlands both in terms of total assets and employees. On the 1998 Fortune Global 500 of banking corporations ABN AMRO is ranked 8th by total revenue.

The history of ABN AMRO dates back to the beginning of the 19th century. The Netherlands Trading Society (NTS), established in The Hague on 29 March 1824 by King Willem I of the Netherlands, was founded to stimulate the growth of the Dutch economy. Already in 1825, NTS operated offices all over the world from Rio de Janeiro to
Batavia (Jakarta). In 1831, after Belgium gained its independence, the board of directors relocated its headquarters from The Hague to Amsterdam. In 1882 NTS officially became involved in banking. Although it had been involved in banking activities for many years, the opportunity for people to actually open an account in the Netherlands was first offered in 1903. To accommodate these new activities, existing branches, which were primarily focused on financing trading activities, were adapted and a new office was constructed in 1910 at Kneuterdijk, The Hague, in order to service private customers. As a consequence of the growth in activities the corporate headquarters in Amsterdam were also expanded. These simultaneous construction activities resulted in the foundation of a real estate management ‘department’ in the recognition of the fact that the board of directors lacked both time and knowledge to guide multiple construction projects. Until 1936 NTS merely operated a head office in Amsterdam and offices in Rotterdam and The Hague. Its branch network in the Netherlands was not significantly expanded until 1936, when NTS took over Geldersche Credietvereeniging which already operated 66 branch offices all over the Netherlands.

In 1964 NTS merged with the ‘De Twentsche Bank’ (DTB) – founded in 1861 to provide financial services for the emerging textile industry – thus creating Algemene Bank Nederland (ABN). The year 1964 also witnessed a merger between two other Dutch banks, the Rotterdamsche Bank and the Amsterdamsche Bank. The main reason for these two mergers was the increasing diversification in the financial world, the international trend towards concentration and an enormous growth in retail banking in the 1960s, bringing with it a demand for economies of scale. Compared to the reach of the AMRO network, the branch network of the ABN was extensive. In 1977 the AMRO Bank opened its second foreign branch. By that time ABN already operated more than branches 217 all over the world.

Both banks operated departments involved in real estate management. The department ‘Bouwzaken’ (BZ) was involved in the preparation and coordination of construction projects for the entire ABN. BZ operated both in the Netherlands and abroad. The AMRO bank maintained two important players with regard to real estate. The ‘Dienst Onroerend Goed’ (DOG), a staff department of the domestic division was responsible for
construction, renovation, and maintenance of all AMRO's corporate real estate excluding corporate headquarters; the department 'Bouwzaken Hoofdkantoor' took care of the latter. While AMRO's DOG mainly focused on portfolio liability management, its counterpart within ABN was mainly involved with construction management.

By the end of the 1980 both ABN and AMRO were looking for ways to expand globally. In less than four months – February to May 1990 – both banks negotiated a merger, resulting in ABN AMRO Bank. The merger was a reaction to developments within the banking business. Both banks faced a worldwide scaling up of companies and financial institutions, calling for a bank with a strong capital base and broad expertise. Economies of scale were becoming an important factor in reducing expenditures, necessary to be able to compete on a global market. The market for private banking in ABN AMRO’s domestic market, the Netherlands, was saturated. Cost reduction and monitoring expenditures were becoming more and more important. The merger created opportunities to both reduce operating expenses, due to economies of scale, and to increase financial power, for handling major capital market operations. By 1995, as a result of the merger, the operating expenses of the ABN AMRO had been reduced by € 182 million; the total number of domestic branches had been reduced from 1462 to 1050; and the number of foreign branches had increased from 466 to 620 in 67 countries. In 1997 ABN AMRO operated 967 branches in the Netherlands and 921 international branches.

ABN AMRO is organised along centralised divisional lines. The arrangement of the divisions is based upon differences in products, and within the divisions a regional structure is maintained. The exception to this rule is the wholesale banking network. The background of the ABN AMRO resulted in an extensive domestic branch network and this still plays an important role on the balance sheet and profit and loss account of ABN AMRO. The organisational structure distinguishes, thus, both a domestic and an international division. The international division is divided in five regions: Europe; North America; South- and Central America; Middle East and Africa and the Asia-Pacific region.

The bank's department of Corporate Real Estate (= CHV) is part of the domestic division and is responsible for managing the real estate portfolio of the domestic branch network and of corporate headquarters. Besides the domestic portfolio, CHV is involved in real estate construction and investment decisions abroad. It comprises three 'operational' units: project management & consultancy, real estate, and account management. Project management is responsible for managing actual construction and reconstruction projects; real estate handles the buying and selling of properties, maintenance, asset and liability management, and database management; and account management operates as the link with CHV's customers. In the Netherlands CHV represents the bank as the owner of the buildings.
5.3 ING Group

ING Group is a company that has wide experience in the field of financial services, is active on a worldwide scale, and offers a full range of financial products and services through various distribution channels. In terms of market capitalisation, ING Group is among the three largest companies in the Netherlands. It is also a prominent player in the European financial market and one of the world's largest providers of integrated financial services (combining banking, insurance and asset management).

- Headquarters: Amsterdam (NL)
- Diversified financials
- Operates in 61 countries
- Multinational workforce of 82,750 employees
- Total income: €38,087 million
- Net profit: €2,669 million
- Corporate real estate: €2,069 million

ING Group grew from a series of mergers between banking and insurance firms. Both the insurance and banking branches have a long corporate history that goes back to the 19th century. The start and early growth of two predecessors of the insurance branch – The Netherlands Insurance Company est. 1845 (18N45) and the Nationale Life Insurance Bank (NLV) – was triggered by economic growth in the Netherlands in the second half of the 19th century, which resulted in the affordability of insurance. Both companies profited from the economic success of the Netherlands and continued to grow at a rapid pace. Economic prosperity after WW II, and growing demand for insurance's benefited both companies. Despite their growth both firms announced a merger in 1963 that resulted in the foundation of Nationale-Nederlanden (NN). The implications of internationalisation and automation were declared to be the two most important motives for the merger. The financial power it created was to be used to expand foreign operations.

Already in the 1930's, 18N45 decided to invest/allocated a portion of the income from insurance premiums in real estate; the NLV operated a similar policy; the department Vaste Goederen (Real Estate) was founded in 1936. In 1963, as part of the merger between 18N45 and NLV, both real estate departments merged into the department Nationale Nederlanden VastGoed (NNVG), which was initially mainly involved in investing insurance capital in the housing industry. A second major period in NNVG's history, at the end of the 60s, construction of family housing to be rented out by investors. A third period was the shift from investing in housing to investing in offices.
The banking arm of ING began with the foundation of the Nederlandsche Middenstandsbank (NMB) in 1927, the product of a merger between three banking institutions all facing crisis. Upon its foundation NMB set up separate legal entities as owners of its real estate – e.g. "Het Middenstandshuis" and “Bankheem”. In the 1950s the bank expanded rapidly, with the consequence that its need for office buildings increased, requiring large amounts of capital. In response a real estate department was created. In 1971 the real estate department was put in charge of acquisition, construction, renovation, management, maintenance and reconstruction of all branch offices and corporate headquarters. In addition NMB operated an internal services department – founded at the end of the 1960s – which was primarily involved in facility management for headquarters and all office buildings in Amsterdam.

As part of a corporate restructuring, NMB founded a Facility Management Division in 1984. All units providing services to the corporation that were not efficiently placeable in the commercial divisions were gathered in the Facility Management Division. Increasing competition in retail banking resulted in 1989 in a merger between NMB and the Postbank; jointly they became the third largest bank in the Netherlands. Only a few months later NMB Postbank Group and Nationale-Nederlanden decided to embark on a full merger, thereby creating ING Group; one of the first integrated financial service providers in the world.

ING Groep consists of two sub-holdings, ING Insurance NV and ING Bank NV; ING Insurance includes – amongst others – the following companies: Nationale-Nederlanden, RVS, and Postbank Verzekeringen. ING Bank controls amongst others the activities of ING Bank, Postbank, ING Barings and Bank Brussels Lambert. To ensure that maximum advantage is taken of the opportunities for cooperation, ING Group has developed a management structure in which policy is coordinated by a single body: the Executive Board of ING Group. As of 1998, five management centres report to the Executive Board:

• ING Nederland
• ING Belgium
• ING Financial Services International
• ING Corporate & Investment Banking
• ING Asset Management

The merger between Nationale-Nederlanden and the NMB-Postbank Group brought with it a merger of the real estate departments of both corporations, and on 1 November 1995, ING Real Estate was established. The prime activity of ING Real Estate is investing the capital generated by the insurance activities of the ING Group. A distinction can be made in three kinds of activities: development, financing, and asset management. A second important activity is developing and realising accommodation for ING Group, which regularly opens office all over the world. ING Real Estate Corporate Real Estate concentrates on the buildings of ING Group, the insurance branch, and the larger
offices of ING Bank and Postbank in the Netherlands. ING Real Estate is primarily in charge of projects involving owner’s maintenance. Within the Netherlands the Facility Management Division (FM) focuses primarily on lessee maintenance.

FM is positioned within ING Bank Nederland and comprises all operating units providing services to other parts of the corporation, including the administrative functions. The division operates its own budgets and is responsible for its own profits and losses. FM includes the department ‘building management’, which is involved in the maintenance, project management and real estate management – e.g. acquisition, construction, and disposal – of the domestic branch network.

5.4

Royal Philips Electronics

Royal Philips Electronics is one of the largest manufacturers in the world. On the 1998 ‘Fortune Global 500’ list of electronics corporations, Philips Electronics was ranked 8th with regard to revenue/sales. The European Business Press Federation placed the company as number three in its poll for the European Company of the Year 1995, praising Philips for its successful turnaround policy and high rate of creating innovations.

Figures for the fiscal year 1998

**PHILIPS**

- Headquarters: Amsterdam (NL)
- Diversified electronics company
- Operates in more than 150 countries,
- Multinational workforce of 233,686 employees
- Turnover: € 30,459 million
- Net profit: € 6,053 million
- Corporate Real Estate: € 1,762 million

In 1899, a few years after the foundation of Philips Gloeilampenfabrieken, Gerard Philips employed A. De Broekert in order to guide the construction activities of Philips. Commensurate with the growth of Philips as a concern its engineering division ‘Technische Bedrijven’ was expanding as well. The division was involved in the design, construction and management of all Philips buildings, all over the world. In 1908 Philips started the construction of the first of a range of concrete buildings that still dominate the city of Eindhoven today. The first building – located at the Emmasingel, five stories high, and occupying a ground floor area of 2000m² gross floor area (GFA) – was the first full-concrete building in the Netherlands. Besides the fact that the buildings were constructed of concrete, in contrast with the fact that the majority of
other buildings were still made out of bricks, the size of the Philips buildings was unlike any other in Eindhoven\(^2\). In the period 1920 - 1930 Philips erected more than 160,000m\(^2\) GFA of factories and offices, one of which is the ‘Lichttoren’ – designed by the architects Roosenburg and Scheffer – which was finished in 1922\(^3\).

In the construction of the numerous buildings, Philips strived to combine a certain level of sophistication in industrial architecture with a high level of standardisation of constructive elements\(^4\). This enabled Philips to alter the use of buildings if necessary. The concept of standardisation was also applied outside Eindhoven. As a result it was often quite easy for ‘insiders’ to recognise a Philips building all over the world. Up to World War II the organisation of the engineering division was characterised by:

- a strong focus on Eindhoven,  
- a limited sphere of activities both in size and variance,  
- a direct link to the board of directors,  
- management and operation of the various functional activities were clustered, and  
- an organisation based on technical disciplines.

After World War II, Philips continued to expand its business activities. As a result, the engineering division established branches all over the world in order to guide the design, construction and management of Philips factories and offices buildings. In order to accommodate its personnel, the total amount of square metres of office and manufacturing space grew rapidly. As a result of a growing need for accommodation, the engineering division expanded, employing in 1966 more than 2500 people in a variety of activities varying from construction, accommodation, facility services, fire safety, etc. In 1968 the engineering division was reorganised in response to continuous changes within the Philips organisation. The division was separated into a local technical department, serving Eindhoven, and a global Architectural & Engineering department (AlB). Within this new organisation, the Architectural & Engineering department – employing more than 300 people world wide – is responsible for managing the construction and design of Philips buildings.

At the very time of its centennial anniversary, in 1991, Philips Electronics faced severe financial problems\(^5\). One measure to address them – as part of the restructuring operation ‘Centurion’ – was the establishment of the task force ‘Fixed Assets’, which was made responsible for optimising the corporate real estate portfolio. Within the last five years the taskforce has released more than € 450 million for other activities by reducing the amount tied up in real estate assets. As a consequence of the major reorganisation programme begun in 1991:

- Philips International maintained a small staff to provide its Board of Management with information and to administrate Operation Centurion.  
- Architects & Engineering department was sold to a commercial consultancy firm, thus becoming DHV AlB.
• The remaining staff involved with corporate real estate affairs was relocated in national organisations.
• In 1996, five years after the initiation of the task force the portfolio was reduced by almost 20 percent.

Currently, all decisions on design, construction and management of real estate have been decentralised to the operational business-units within Philips Electronics. The ‘central’ real estate department merely acts as an internal consultant to the business-units. The current real estate organisation is characterised by:
• decentralisation of activities to the national organisations;
• decentralisation of economic ownership to the operational business-units; and
• decentralisation of purchase of real estate related products and resources

In 1998 Philips is studying on alternative strategies. Making use of an international network of preferred suppliers Philips aims to create a uniform, world-wide approach of corporate real estate resulting in a more commercial and strategic approach.

5.5

Unilever NV

Unilever was founded in 1929 after a merger between the Dutch firm ‘Margarine Unie’ and the British firm ‘Lever Brothers’. Starting as a group of local manufacturers, Unilever has grown to become one of the world’s leading manufacturers of consumer products.

Figures for the fiscal year 1998

- Headquarters: Rotterdam (NL) and London (UK)
- Foods and Home & Personal Care
- Operates in more than 90 countries
- Multinational workforce over 265,000 employees
- Turnover: € 40,437 million
- Operating profit: € 4,410 million
- Corporate real estate: € 2,555 million

In 1871 Anton Jurgens bought the rights to produce artificial butter (margarine) and started a margarine factory in Oss, the Netherlands. Only one year later, another Dutchman – Simon van den Bergh – started his margarine factory, again in Oss. Within a couple of years both families were themselves able to provide all the financial means necessary for maintaining corporate growth. In addition to domestic growth, by the turn of the century Van den Bergh also operated two ‘foreign’ subsidiaries. In order to
continue to finance corporate growth, Van den Bergh had to turn to the English financial market for funds, due to both a lack of eligible financiers in the Netherlands and the late arrival of the industrial revolution in the Netherlands. By 1924 'NV Van den Bergh's Fabrieken' operated a department for 'Building Maintenance', which reported to the technical director of the company; in company documents of the same era there are references to a chief-engineer and a corporate architect of the NV Van den Bergh's Fabrieken. In November 1927 Jurgens and Van den Bergh merged and two holdings were founded, the 'NV Margarine Unie' and the British 'Margarine Union Limited'. In 1929, Margarine Unie merged with the British firm 'Lever Brothers'. Lever Brothers – founded in 1885 – had grown through both takeovers in the UK and by establishing factories on the Continent and in Africa. The merger grew from the need for similar raw materials and the synergy between the business activities of both firms. At the time of the merger both firms already maintained an international network of factories. After the merger, Unilever Limited became responsible for the United Kingdom and the Commonwealth countries, Unilever NV for all the others countries. Each of the subsidiaries was an independent legal entity, run by local personnel.

Shortly before World War II, Unilever established a technical division; supporting departments were established in London, Rotterdam and Hamburg. The departments operated almost completely separately, although nominally under one label. World War II increased the need to delegate authority since communication between headquarters in London and Rotterdam and overseas became extremely more difficult. After World War II, Unilever had to make use of the experience and knowledge of local management in order to expand its operations.

In the post-war period Unilever operated a corporate real estate department – as part of Unilever Nederland – which managed construction works for various parts of Unilever. In 1967 Unilever closed this department down. After the CRE department was dissolved activities were outsourced to local service providers or transferred to the corporation's engineering division, thus involving the civil engineering department with design and construction of Unilever buildings globally. Organisationally the department reported to one of the functional directors in charge of Research & Engineering. In addition to the engineering department, Unilever operated 'facility management' departments, one at each corporate headquarters. These 'Internal Services' departments were part of General Management Head Office, and were responsible for guiding and managing of all corporate headquarters activities related to buying, managing and maintaining accommodation.

The core unit in the Unilever organisation is the individual company operating in its particular market. Each of these companies needs to work together with the others to achieve maximum effectiveness. The operating companies are organised into 12 'Business Groups', each essentially based on geographical markets. Besides business groups and operating companies, Unilever operates national organisations responsible for supporting the operating companies activities in various countries on matters of legal, financial and personnel affairs.
Unilever’s legal structure is still based on the old two-parent company structure. Each subsidiary is generally owned by one parent, a decision based on the geographical sphere that the company is registered in. This structure is to ensure that capital flows between parent and subsidiaries are as economically as possible. The organisational foundation of the operating companies is based on optimisation of fiscal advantages. Operating companies are either owned by Unilever N.V./PLC through a National Company, they are divisionalised into one of the National Companies, or are a direct holding of Unilever N.V./PLC.

Currently, the engineering department no longer exists as a separate entity. The corporate engineering function is integrated in the Corporate Manufacturing and Supply Chain Technology Group, which is part of Unilever Research. One of the group’s responsibilities is specialist engineering (civil, electrical and utilities). Besides attention for real estate management at a corporate level, each production location is responsible for its own facility management/technical service department. These local departments are increasingly confronted with demands for reducing operating costs.

5.6 Vendex International

In the last couple of years the organisation of Vendex International has been characterised by a number of mergers and divestments. The split off of both the food and services activities and the merger with KBB are the most important events in the recent history.

- Headquarters: Amsterdam (NL)
- Retail
- Operating companies in over 6 countries
- Multinational workforce of 26,800 employees
- Turnover: € 4,185 million
- Net profit: € 520 million
- Corporate real estate: € 270 million

Vendex International NV is a retail and services corporation, that originated from the retail chain Vroom & Dreesmann, which was founded in 1887 in Amsterdam. In 1887, Anton Dreesmann, together with his brother in law Willem Vroom, started a company in flannel, baize and pillow together: Vroom & Dreesmann (V&D). Following on from its first stores in Amsterdam, the new company expanded its activities all over the Netherlands. Each expansion followed a similar pattern: a family member with
sufficient capital became a director of a new branch for the full 100 percent, while he owned 50 percent of the branch. Anton Dreesmann and Willem Vroom owned the remaining 50 percent. By the time of the 25th anniversary in 1912, V&D operated 34 branches divided over 16 legal entities in 16 cities all over the Netherlands. Up until the 1930s the growth in the activities was accommodated through purchasing adjacent properties: by breaking down internal walls, the shops could expand their activities. After gathering a cluster of buildings, those buildings could be demolished and replaced by the construction of a new building. It was V&D’s policy to own all its buildings and land. This provided a solid financial basis with helped to survive both the depression in 1929 and declining sales during WW II.

After WW II V&D abandoned its patchwork organisation in order achieve more coordination and centralisation within the company. In 1970 all the independent companies were dismantled and a centralised organisation was created. Anton Dreesmann Jr. was in charge of the unification, which was completed in 1973. After 1973 V&D entered a period of growth for the activities. Anton Dreesmann’s credo for the corporate strategy was “diversification, expansion and international recognition”. Part of the process of diversification was entry into the services industry. The transformation of 17 companies into one centralised organisation resulted in a reduction of overhead costs. The unification provided new opportunities for alignment of business and real estate activities. The resulting value of its real estate portfolio was used as collateral for the bank loans needed to provide the financial means for the expansion and diversification of V&D. The new focus on real estate resulted in 1970 in the foundation of two departments: Corporate Expansion; and Property Management. In addition, V&D started – together with two other Dutch family-run retail chains – to develop its own projects in cooperation with the NMB bank. This resulted in the foundation of MBO, which is currently part of ING Real Estate.

In 1985 the corporation was transformed into a holding company – Vendex International – to which V&D department stores belong. In 1987 the organisation of Vendex rested on two pillars: retail and services. The former comprising the groups department stores, living, fashion, hardware, food, mail order, domestic participations, and foreign participations; the latter comprising the groups information, maintenance services, professional employment services, financial services, leisure, and other services. By its centennial year (1987), Vendex International had become a multinational corporation with a turnover of more than € 7,500 million and 85,000 employees.

At the end of the 1980s the V&D department stores were facing severe financial problems. A reorganisation plan resulted in concentration on cost control, a restyling of the department stores, and a retreat from Brazil and the United States. The severe troubles triggered a new perspective on real estate. In 1990 a real estate department was founded, incorporating the departments of Corporate Expansion and Property Management, as well as the construction activities of the various technical
departments. The new department’s objectives were to coordinate management and exploitation of the corporate real estate portfolio of Vendex, and to bundle real estate knowledge on behave of operating companies.

In 1995 Vendex International became listed on the Amsterdam Exchanges. Within the renewed organisation the corporate centre develops strategy and is closely involved in the commercial positioning of subsidiaries. In addition, this corporate centre provides services for finance, acquisitions, internationalisation, and corporate real estate management. The directors of the subsidiaries have a large degree of freedom, which provides them with opportunities to operate flexible, market oriented firms and place high priority on quality of products and services.

Up to 1997 subsidiaries were clustered in two sectors, Retail and Professional Services, each of them divided in to various groups. In 1997 Vendex announced it would separate retail and services activities into two independent companies. The operating companies in the services sector were separated from the retail activities and are now clustered in Vedior NV, a separate corporation that is currently listed on the Amsterdam Exchanges. In February 1998, Vendex and KBB, another Dutch retail firm, announced plans for a full merger. Simultaneously, Vendex announced the intention to let go its food activities in order to focus on its retail business. On October 30, 1998, Vendex Food Group – split-off from the remaining Vendex activities – and De Boer Unigro merged into Laurus.

5.7

Royal Ahold

Ahold's mission is to become the world's best and most successful food retailer. Up to the 1970s Ahold’s activities were concentrated in the Netherlands. In the last couple of years Ahold has been expanding rapidly through major take-overs in the United States, Asia, and South America. On the 1998 Fortune Global 500 Royal Ahold is ranked at 5th largest corporation in the food and drug stores industry.

- Headquarters: Zaandam (NL)
- Food and drug stores
- Multinational workforce of 162,746 employees
- Operations in 17 countries
- Turnover: € 26,484 million
- Net profit: € 1,017 million
- Corporate real estate: € 3,480 million
Ahold's history starts in July 1867, when Jan Simon Heijn opened his first official store in the Oostzaan region, north of Amsterdam. Twenty years later, in 1887, his son – Albert Heijn – took over the store and changed the product line from its originally great variety of products to a focus on food. In 1897, 10 years after taking over his fathers grocery store, Albert Heijn was operating more then twenty stores spread over the western Netherlands. Besides expanding the number of stores he started to manufacture his own products, because he wanted to in control the quantity, the quality, and above all, add value to his chain through house brands. In 1912 Albert Heijn hired a carpenter, Gerrit Onrust, who was put in charge of decorating shops, and technical construction in production departments.

By the early twenties Albert Heijn operated 75 branches. Besides an expansion of the branches, the 1920s are also characterised by an expansion of production facilities. In 1932 the company's name was changed from 'NV Maatschappij tot voorzetting van de Fabrieken en Handelszaken van Albert Heijn' into the shorter 'Albert Heijn BV', which would in 1936 be featured on top of all stores in fancy neon signs. Although the number of buildings increased continuously, Albert Heijn was constantly faced with a lack of space. In 1948 it opened its closed family structured and launched its shares on the Amsterdam Exchanges.

At the end of the 1950s, legal problems, protests from local shop-owners, difficulty finding new locations, and the huge amount of capital needed to cover construction costs resulted in the need for professional support. In 1959 Albert Heijn founded a department in order to coordinate all activities with regard to site-selection, prospecting, distribution research, and personnel education. In addition, a real estate department was established in 1966, which was involved in the acquisition of new locations and properties, site-selection, disposal, management, and location analysis. To finance the expansion of the number of shops and to limit the amount of money locked up in bricks and mortar, Albert Heijn founded real estate firms in which investment firms participated. The idea behind this financial construction was to find new ways of financing real estate acquisitions. Up to 1970s the Heijn family was personally involved in acquisition and prospecting.

In 1970, a McKinsey report suggested that Ahold could best expand on an international scale by taking over local firms and thus buying local knowledge. Parallel to investments in Spain, Albert Heijn started laying plans for expansion in the US – a more single market in a good economic state. The first buy-over was Bi-Lo. Contrary to normal practice in the US, Albert Heijn maintained the then current management. The main reason for entering the US market was one of spreading commercial risks. With the acquisition of the fourth US subsidiary, the balance was once again disturbed with 4 US chains and merely one European (Dutch).
In 1972 the Albert Heijn organisation was restructured and the Ahold name was introduced. All companies that Albert Heijn had taken over in recent years were transformed into subsidiaries of the Ahold Holding. The name Ahold was introduced to avoid misunderstandings between Albert Heijn, on the one hand, and the growing number of other companies residing under the holding structure on the other.

By the end of the 1980s Ahold’s strategy was completely reversed. The era of ‘small is beautiful’ had ended. Ahold was once again the holding corporation for all operational divisions. Several staff departments were positioned in separate subsidiaries. Each of them with individual targets and returns, and responsibilities for their activities. In addition, some departments were transformed into separate legal entities. The main event in the reorganisation was the privatisation of Albert Heijn BV in 1989, thus relinquishing its traditional role of holding company for that of a subsidiary of Ahold NV. The result of its reorganisations was that Ahold was becoming more and more a strategic holding instead of an operational one. In 1991 Ahold Vastgoed BV was founded as a legal entity in charge of real estate development, acquisition and management with regard to the domestic retail portfolio.

Ahold is currently a fast-growing international leader in food retailing. Its chains in the United States, Europe, Asia and South America serve consumers through some 3,600 stores, encompassing a wide range of formats: supermarkets, hypermarkets, cash & carry’s, discount stores and speciality stores. Within the Netherlands, Albert Heijn is the largest subsidiary with approximately 45,000 people employed, 40,000 of which in the Albert Heijn stores and 5,000 in distribution centres, production facilities and head and regional offices.

Ahold’s foreign expansion is primarily established by taking over local companies, so Ahold Vastgoed is often called in to train local people in a more pro-active manner of prospecting and real estate management.

In January 1997 Ahold announced a reorganisation of its ‘corporate staff and services’. Due to increasing internationalisation and the wish to align domestic activities, corporate staff and services were separated and the latter repositioned in national markets. Ahold Vastgoed – mainly operating for Albert Heijn and speciality stores in the Netherlands is repositioned into the Albert Heijn organisation.

Ahold Vastgoed manages a real estate portfolio and is responsible for determining the ‘location strategy’ of all Ahold subsidiaries in the Netherlands, and acts as ‘spider in the web’ of brokers, project developers and municipalities dealing with the real estate market.
Royal Dutch/Shell is one of the world's largest corporations, operates presently more than 1,700 active companies in 132 countries all over the world. Today Royal Dutch/Shell is involved in oil and gas exploration and production and operates almost in all parts of the globe.

- Headquarters: The Hague (NL) and London (UK)
- Petroleum refining
- Operating companies in more than 100 countries
- Multinational workforce of 102,000 employees
- Turnover: € 62,622 million
- Net profit: € 159 million
- Corporate real estate: Not Available

Similar to Unilever, Royal Dutch/Shell was founded early in the 20th century as a result of a merger between a Dutch and an English company. In 1907 the NV Koninklijke Nederlandsche Petroleum Maatschappij (based in The Hague, the Netherlands), and the Shell Transport and Trading Company PLC (based in London, United Kingdom) set up an alliance in order to keep up with the growing competition. Following the 'merger' Royal Dutch/Shell expanded rapidly: Russia (1910), Egypt (1911), United States (1912), and Trinidad (1914).

Royal Dutch started off in a back room of the living-quarters of its first director, Mr. J.A. de Gelder. The rapid expansion of Royal Dutch and the merger with Shell resulted in the continuous need for additional accommodation. In 1913 the Board of Directors initiated the construction of a new corporate headquarters in The Hague; a building which is currently still in use by Royal Dutch/Shell. Besides the presence of a service department – involved among others with accommodation – the directors were closely involved in real estate matters.

The late 1950s and the 1960s saw the emergence of oil as a major energy resource, supplying a large proportion of the world's needs. By the end of the 1960s Royal Dutch/Shell had grown into a corporation with operating companies all over the world. The expansion of business activities and its corporate staff in The Hague and London resulted in problems with controlling the corporation. The corporation invited McKinsey to review the organisation of its corporate headquarters in The Hague and London. The outcome of the review was an organisational structure based on the principle that operational authority ought to be as close as possible to the client. The
recession of the seventies had a dramatic impact on the oil business, one being OPEC's demands for large increases in the price of crude oil. Although oil, natural gas and chemicals remained the major focus of Shell companies' activity during the seventies, important longer term interests in coal and metals were also developed during this decade.

The two parent companies, Royal Dutch Petroleum – controlling 60 percent of the shares – and the Shell Transport and Trading Company – controlling the remaining 40 percent – are not actively involved in business activities. Both 'merely' own the shares of the three holding companies of the Shell Group: Shell Petroleum NV (the Netherlands), The Shell Petroleum Company Limited (United Kingdom) en Shell Petroleum Inc. (United States of America), which contains the North American interests of the Shell Oil Company. All other operating companies – more than 1,700 active companies in 132 countries – are owned by either one or both of the two holding companies and supported by a limited number of service companies based in The Hague and London. The central services organisation provides professional services that are not directly related to individual business activities. Customers can range from the Corporate Centre, Business Committees or individual operating companies.

The strong central functions and services, which have helped the Group to transfer technical and functional expertise around the world in support of its many local operating companies, 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.

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. McKinsey proposed cutting staff at corporate headquarters by 30 percent and flattening the organisations' matrix; reducing hierarchy.

Given that all operating responsibilities within the Royal Dutch/Shell Group are decentralised to the operating companies, there is no centralised corporate real estate department. The real estate group of Shell’s Pensioenfond occasionally provides guidance with regard to real estate transactions. Each operating company can formulate its own real estate policy. The various operating companies accommodated in The Hague and London are facilitated by a 'Office Directorate', which provides all services including accommodation. Parallel to reductions in corporate staff the number of corporate headquarters buildings was also drastically reduced. This reduction and the outsourcing of activities have resulted in a decrease in size of internal service departments there. The department Accommodation Services has recently been repositioned, as is currently part of Shell Services International.
A similar tendency is also recognisable among the individual operating companies and national organisations. For example, within Shell Nederland the number of in-house employees involved with accommodation has been reduced from more than a 100 people in the 1960s to a current number of 5 employees. The core activity of the department that now remains is contract management between Shell Nederland, other operating companies, and service providers.

5.9

AKZO Nobel

AKZO Nobel, also the result of a series of mergers, is positioned 11th on the Fortune global 500 of chemical corporations. AKZO Nobel is the product of numerous companies joining forces over a period of many years. The most recent and significant change occurred in early 1994, when the merger of AKZO and Nobel Industries created AKZO Nobel. Today AKZO Nobel is a market-driven and technology-based company, serving customers throughout the world with health-care products, coatings, chemicals, and fibers. The company is active in more than 60 countries.

Headquarters: Arnhem (NL)
Chemicals
Operating companies in 69 countries
Multinational workforce of 85,900 employees
Turnover: € 12,482 million
Net profit: € 609 million
Corporate real estate: € 1,628 million

Figures for the fiscal year 1998

After its foundation in 1911 the NV Nederlandsche Kunstzijdefabriek (ENKA), one of the first predecessors of AKZO Nobel, expanded rapidly, resulting in a growing number of factories and even in the establishment of new subsidiaries in England, Italy and the USA. In 1929 ENKA changed its name into AKU (Algemene Kunstzijde Unie) in order to reflect the changing structure of its organisation. AKU had in fact become a holding company covering a growing number of international subsidiaries. In order to develop and improve new processes and products, and to provide technical assistance to its subsidiaries, in 1933 AKU established a research centre. After World War II, AKU began to diversify its activities. Besides entering the synthetic fiber market, AKU merged in 1969 with the Koninklijke Zout-Organon (KZO), which was itself the result of a merger of several corporations in the Dutch salt and chemical industries. A merger with the Swedish Nobel Industrier AB in 1994 produced the current AKZO Nobel.
Little is known about the history of real estate management in AKZO Nobel or its predecessors. In 1918 AKU needed to expand its production facilities, which resulted in the construction of a new factory in Ede (1922), and a factory at Vosdijk in Arnhem (1923). To facilitate the expansion, the engineering officer jhr. J.M. van den Bosch was appointed on May 1, 1919 as construction manager for the construction of the large factory in Ede. In the 1920s, when the factories in Arnhem were expanded, there is mention made of an AKU architect. The first mention is made of a centralised engineering bureau in the 1950s. In addition to mentioning the architects, there are also references to a technical services department. The "Technische Dienst" – which was in service during the 1960s within the AKU – was responsible for maintaining buildings, heating and energy supply.

In general, real estate activities within AKZO Nobel are organised per location. In order to facilitate the autonomous growth, local engineering departments were founded. Especially on the larger sites, these Technical Departments (TDs) grew. The TDs were mostly made up of two major parts: engineering and maintenance. The introduction of the business-unit concept within AKZO Nobel resulted in a strengthening of the technical and R&D departments within the individual business-units, and in an increasing pressure on the central service units. In addition to the local technical departments, AKZO Nobel maintains an Engineering department at corporate level. In 1991 AKZO Engineering was founded as a result of the tendency to centralise support activities. During the reorganisation from a divisional to a business-unit structure, the former Architects and Engineering department was transformed from a staff department into a service company: AKZO Nobel Engineering.

AKZO Nobel NV is the present holding company of a number of operating companies spread all over the world. These operating companies are clustered in four divisions: Chemicals, Coatings, Pharma and Fibers. Each division is divided into business-units. The following indicates the spread of turnover among the divisions in 1998: 27% (Chemicals), 38% (Coatings), 16% (Fibers) and 19% (Pharma). Following the merger between AKZO and Nobel, AKZO Nobel is has been involved in integrating the various business activities and dismantling non-core activities and assets. Examples are the dismantling of the production of bottle polymers, the withdrawal from a participation in a hydroelectric station in Sweden and the disposal of the former headquarters of Nobel in Stockholm. Parallel to the integration, AKZO Nobel has transformed its organisation into a business-unit structure. In addition to the business-units, AKZO Nobel maintains a corporate staff, and various service departments, among them AKZO Nobel Engineering BV.

AKZO Nobel Engineering is a 100 percent subsidiary of AKZO Nobel Nederland, one of the national organisations of AKZO Nobel. AKZO Nobel Engineering, however reports however directly to the holding AKZO Nobel NV, where one of the members of the board
is responsible for the service units, including AKZO Nobel Engineering. In 1998 AKZO Nobel decided to investigate whether or not to outsource the engineering activities.

In addition to AKZO Nobel Engineering BV, the Service Unit AKZO Nobel Centre manages AKZO Nobel Centre in Arnhem, where corporate headquarters are located. The service unit is owner of these premises, and rents the accommodation to individual users. The Service Unit is responsible for maintenance, construction, and renting out of units and is, in addition, in charge of all facility services at the corporate centre.

Besides AKZO Engineering and the Service Unit, AKZO Nobel operates a Strategy & Technology Department – reporting directly to the Board of Directors – that is involved in evaluating all investment proposals of business-units. Corporate site policy, one of the sections within the department, is responsible for reviewing proposed real estate investments and matching them with corporate policy and the existing real estate portfolio.

5.10

Notes

1 The item 'Corporate Real Estate' consequently refers to the book value of the real estate portfolio.


4 Onna, Norbert van, Eric Poell (1997), Architectuur in Eindhoven: impressies van een stedelijklandschap = Architecture in Eindhoven : impressions of an urban landscape, Eindhoven: [s.n.].

5 In 1991 NV Philips Gloeilampenfabrieken changed its name into Philips Electronics.

6 In 1996 the book value of Philips Electronics' real estate assets was NLG 4,000 million; 8 percent of the corporation's total assets.

7 Vendex international was studied during the period before the merger with KBB and the separation of Veldior and the vendex food group.

8 The figures of Vendex are excluding Veldior and are based on the annual report 1997/1998.

9 This department is referred to as 'Onderzoek, Bouw & Ontwikkeling' which stands for 'Research, Construction and Development'.


11 OPEC stands for Organisation of Petroleum Exporting Countries.


13 AKU-research, De N.V. onderzoeksinstituut “research van de Algemene Kunstzijde Unie N.V.”, 1962, p. 86.
Chapter 6

Relating corporate and real estate management

6.1 Introduction

Each of the eight cases outlined in Chapter 5 revealed examples of corporate changes affecting real estate departments. Whereas Chapters 2 and 3 described from a general and theoretical point of view the changes in the corporate setting, the purpose of this chapter is to relate transitions and transformations in corporate strategy and structure to managing a corporation's real estate portfolio.

Based on analysis of the history and day-to-day practice within a number of corporations, the impact of strategy- and structure-related variables on the role and position of real estate departments is 'measured'. Each case (see Chapter 5) underwent a transformation from a small, family run enterprises to a multinational corporation, highlighting parallel changes in the role and position of their real estate departments. Real estate management has evolved from a mere side-activity of the founder/director into a separate discipline involving professional staff departments, often working in cooperation with commercial service providers. Sections 6.2 to 6.4 describe the impact of changes both in the economy and the real estate market on corporate setting and corporate perspective and implementation of real estate management for the three time periods shown in Figure 6.1. For each time period, an overview is presented of the changes in the economy and the resulting alterations and adaptations in corporate structure and strategy that followed. Consequently the impact of these changes on the department involved in managing the corporation's real estate portfolio is analysed. Section 6.5 highlights and explains differences and similarities in the implementation of real estate management in multinational corporations.

6.2 The first steps towards to establishment of a discipline: 1900 – 1940

Finally, at the end of the 19th century, industrialisation took-off in the Netherlands\textsuperscript{1,2}. The growth of the Dutch economy resulted in a shift from agriculture and home-based industries towards industrialisation and, secondly, in a breakthrough of commerce
mainly caused by the creation of the capital-goods industry. Inventions and product innovations enabled industrial firms to improve the efficiency and effectiveness of their business activities. The growth of industrial activities and the consequent need for employees resulted in urbanisation and the increased spending capacity of the working classes. The growing number of people living in urban areas and the increasing wealth of the population were among the most important triggers for the rise of service industries.

The majority of firms active in the Netherlands at the beginning of the 20th century were either founded by the Dutch government or were run by families. The size and scale of their activities were limited to a single product and/or market; in most cases they were even confined to their country of origin. Concurrent with the limited size and scale of business activities, the organisation of the firm was characterised by a flat, centralised structure. The strategy of most firms was focused on survival and on expanding activities. The relatively stable environment then made few demands on the structure of the organisation.

Starting off on a small scale, many corporations in the beginning operated from a backroom at the founder/director's living quarters. Expansion of business activities was often accommodated through acquiring adjacent property. Industrial activities were by their nature of their activities, often located outside the city limits, in small factories. Anticipating future growth potential, many industrial corporations acquired huge quantities of land in order to assure themselves of options to expand. Cheap land, the availability of a railway connection and low wages were among the reasons for corporations to select locations. Real estate was often not a major issue at this point.
Initially Royal Dutch (case: Royal Dutch Shell) operated from a back room of the living quarters of its first director Mr. J.A. de Gelder, which was located at Celebesstraat 28. As a result of expansion, in subsequent years it 'wandered' through the inner city of The Hague before ending in 1904 at the Lange Vijverberg 2. The foundation of the Bataafse petroleum Maatschappij in 1907 resulted in a need for more accommodation. In 1913 the Board finally agreed to construct a new building, to be designed by the brothers Van Nieuwkerken, at Carel van Bylandtlaan 30 in The Hague. When the building was finished in 1917, one of the directors, Mr. Colijn, was put personally in charge of the planning of the relocation. Royal Dutch also operated an internal service department involved in accommodation: Mr. C.W.A. van Bergen was the chief of this department.

The simple, functional structure was characterised by a close relation between production, sales and engineering. The director/founder was in control of all activities. In order to be able to expand their activities, corporations placed value on both research and development, and engineering services. Commensurate with the growth of the organisations as a whole, a number of activities grew to the extent that they became full departments within the corporation.

In family-run firms, relatives with technical knowledge were often employed to assist in real estate activities. Besides making use of family members, several corporations relied on former army officers to guide corporate needs for accommodation. The expansion of business activities in the first few decades of the 20th century, and the consequent need for accommodation resulted in the foundation of staff departments responsible for real estate and facilities management.

Given the continuous need for accommodation and the absence of a professional real estate market, corporations were forced to undertake these activities and manage their resources themselves. In most of the cases the real estate departments reported directly to the founder/director. Within the corporate structure the technical or construction department was often positioned as one of the main divisions/departments of the organisation. The continuous need for buildings and land, combined with the desire to control the availability of skilled and sufficient labour, resulted in a key role for these departments within corporations. Decisions with regard to real estate are mostly taken on an ad-hoc basis. The strategy in matters of real estate was an extension of the corporate strategy and thus formulated by the founders of the firm.

In a letter from Anton Philips to Mr. Van Walsem dated December 7, 1929, Philips stated: “It has appeared desirable to coordinate and manage all matters relating to purchasing and renting real estate, renovations and construction, outside of Eindhoven, in one centralised position”

As business activities expanded so did the need for accommodation.
The privately rented house of Dr. J.C. Hartogs at Velperweg 29 was the first office in Arnhem of the NV Nederlandsche Kunstzijdefabriek (Case: AKZO Nobel). Before settling in Arnhem, Mr Hartogs had been busy selecting a suitable site for his factory. He had a number of criteria:

1. the presence of good quality water in large quantities;
2. well-developed means of transportation both on water and land;
3. the presence of skilled labour;
4. ample supply of energy, accommodation options, sewerage; and
5. a sympathetic attitude from the local town council.

In addition to these functional criteria the mere fact that Mrs. Hartog liked to live in Arnhem was also probably an important element in the decision.

In 1896, five years after its foundation Philips bought a piece of land which would prove to be sufficient until approximately 1910. Up to 1900, Gerard Philips, the founder of Philips, was solely responsible for civil engineering matters. In 1899, A.I.J. de Broekert was employed as a technical supervisor and became responsible for maintenance and management of Philips' buildings and installations.

Industry sector
By the beginning of the 1930s several industrial corporations had established fully equipped real estate departments. In most cases these departments dealt with the entire range of technical disciplines, employing architects and engineers through to property managers. Real estate departments were founded to:

- control construction activities, both technically and financially,
- standardise building design,
- guarantee the availability of skilled employees, and
- create and maintain a corporate image through the architecture of their buildings.

To facilitate the expansion of the AKU (case: AKZO Nobel) on May 1, 1919, Dr Hartogs appointed the military engineer Jhr. J.M. van den Bosch as construction manager for the construction of a large factory in Ede. The continuous expansion at the site Velperweg in Arnhem and the consequent need for additional land led to an almost continuous acquisition of land. When expansion continued during the 1920's, AKU started to employ its own in-house architects. AKU architect Beenker, for example, was responsible for the design of the tower of the FA factory on Velperweg site in Arnhem in 1928.

By 1924 'NV van den Bergh's Fabrieken' (Case: Unilever) operated a department responsible for 'building maintenance', which reported to the technical director of the company and employed amongst other staff a chief engineer and a corporate architect. The interests of the technical department were represented on the board.
of Van den Bergh by Mr. S. de Kadt, while the daily technical management and control was under the charge of J.J. van Ley. Costs and expenses relating to the buildings were transferred to the various departments – both to independent operating companies and to staff departments – based on their floor area\textsuperscript{10}, \textsuperscript{11}.

In 1931, two years after the merger between Margarine Unie/Limited and Lever Brothers Limited, Unilever N.V. relocated to a new corporate headquarters. The new headquarters at the Museumpark in Rotterdam (the Netherlands) were designed by the architect Mertens in cooperation with Ir. J.D. Brakel, an architect employed by Unilever\textsuperscript{12}.

The desire to standardise building styles could have far-reaching consequences as can be seen in Philips Electronics.

"Mr de Broekert (Chief of the Technical Department of Philips) wanted the paving in Mitcham to be done with Swedish bricks. You should have seen the drama – how the bricks were shipped in from the North, transferred onto smaller ships in the Thames, then later onto railway trucks, and finally to Mitcham. At that time there were no pavers in the United Kingdom to lay out the bricks. Finally, pavers were brought in from Eindhoven. That was the spirit of standardisation: "There are bricks in Eindhoven, so there are bricks in Mitcham"\textsuperscript{13}.

Although they covered a broad scope, all activities were mainly concentrated in one location. Since most corporate successes were based on the firm’s ability to replicate efficiently, corporations operated from a limited number of plants\textsuperscript{14}. Some corporations are, however, characterised (mostly due to the nature of their activities) by a large geographical spread of activities; then corporate headquarters are likely to merely accommodate administrative activities. Their need for accommodation is consequently of a different order than industrial corporations operating extensive sites that must accommodate both production and administration activities, such as Philips in Eindhoven or AKZO Nobel in Arnhem. With a wide geographical spread of activities the need or demand for the establishment of staff and support departments is less.

Due to limited possibilities for expansion in the Netherlands, most corporations started to export products. In their search for customers, raw materials and new markets, these corporations began to set up activities abroad. The lack of electricity in the southern parts of the Netherlands triggered the international expansion of Philips Gloeilampenfabrieken (Philips Light Bulb Factories). As a result of the nature of their activities, corporations internationalised in search of raw materials such as palm-oil (Unilever), petroleum (Shell), and salt (AKZO Nobel). The expansion of Dutch industrial corporations and increasing trading activities between the Netherlands and its overseas colonies also resulted in the international expansion of financial corporations.
Services sector
Within services corporations the need to establish real estate departments was often less urgent, due to their limited scale. The founding families of Albert Heijn and Vroom & Dreesmann were from the beginning closely involved in all real estate related matters. Early on, limited competition and continually growing demands from both food and non-food markets, combined with sufficient opportunities to expand locations, did not create the necessity to establish supporting departments for real estate. While services corporations were primarily domestic in orientation and organised in a centralised manner, industrial corporations began to decentralise operational authority to operating companies and national organisations. Decentralisation in industrial corporations began to influence the traditionally centralised role and position of their real estate departments. While the central role of real estate departments in industrial corporations was diminishing, in most of service corporations those departments were only starting to flourish. Besides support of technical operations, some corporations had already started to develop a financial perspective in managing the real estate portfolio.

Upon the foundation of the NMB (Case: ING Group) in 1927, two real estate trusts were founded: the N.V. Maatschappij van Onroerende Goederen ‘Het middenstandshuis’, and the N.V. Onroerende Goederen Explotatie ‘Bankheim’. It was common use for Dutch ‘Middenstandsbanken’ banks to establish special legal entities in which the bank’s real estate was incorporated. The banks consequently owned all the shares of the entity.

Although financial corporations started their international activities early in their development, many of those activities were related to financing Dutch trade. Nevertheless, despite various corporations operating on an international scale, the majority of their activities were still carried out in the Netherlands. Their international presence mainly comprised local agencies. Besides foreign agencies, the corporate real estate portfolio of banking firms consisted of a domestic branch network and corporate headquarters. The need for accommodation was, therefore mainly focused on the construction and management of headquarters’ buildings and branch offices. To maintain this concentration of activities, several corporations operated a special service department to support the corporate headquarters in its need for accommodation.

Both the takeover of the Geldersche Credietvereniging in 1936 and that of De Twentsche Bank in 1964 resulted in a dramatic expansion of the domestic real estate portfolio of the Nederlandsche Handel – Maatschappij (NHM) (Case: ABN AMRO). Although the domestic portfolio expanded, all real estate activities remained under the control of ‘Bouwwaken’, a department founded at the beginning of this century to control all construction activities of NHM, both domestically and international.

The first few decades of the 20th century were characterised by mergers and acquisitions. Indeed, besides autonomous growth, much expansion occurred through
mergers and take-overs. In 1907 Shell Transport and Trading Company merged with Royal Dutch Petroleum Company. A little more than two decades later Margarine Unie merged with the British trading firm Lever Brothers. The effects of these Anglo-Dutch mergers are still recognisable in their current organisations. At a time when many industrial corporations started to internationalise, service corporations were still primarily focused on domestic growth. As a result of continuous expansion, corporations were no longer able to continue financing their expansion without help from shareholders. Commensurate to the growing importance of external shareholders, the role of corporate founders decreased. The beginning of the 20th century can therefore be referred to as the period of the birth of Dutch multinational corporations.

6.3 From World War II up to the 1980s

Due to World War II, large portions of corporate real estate in the Netherlands – and in the rest of Europe – were destroyed. Corporations often had to rebuild large portions of their production infrastructure to be able to continue their activities. Supported by international and national aid programs, and stimulated by growing consumer demand, corporations were able to recover rapidly from war damage. Recovery of demand for both capital and consumer goods resulted in rapid expansion of domestic industrial and commercial activities. Although the destructive effects of World War II hindered domestic activities, many of the international activities of corporations could not be continued. To be able to continue the coordination of their international activities during the war some Dutch multinationals relocated their corporate headquarters temporarily outside the occupied territories.

World War II increased the difficulties of coordinating and transporting goods between ‘foreign’ operating companies and domestic corporate headquarters. Although some corporations were able to continue their headquarters activities, in most corporations overseas companies were cut off from their parent and had to operate on a stand-alone basis. World War II increased the necessity for decentralisation of operational authority. After the war continuous corporate growth and increasing geographical spread of business activities led to an increase in both organisational and physical distance between centralised staff departments and operational business-units. As a result, corporate management structures evolved from what had been a functional orientation into a geographical orientation with support from corporate headquarters. Increasing geographical and product diversity resulted in a decentralisation of activities from corporate headquarters to national organisations and operating companies. Parallel to decentralisation of business authority, real estate management activities and authority was also decentralised.

From World War II up to the 1960s the large majority of real estate activities were mainly focused on the construction of new accommodation. Expansion of business
activities brought with it a growing need for accommodation and for departments to manage real estate portfolios. To be able to assist continuously in the design and construction of new accommodation, the corporation had to purchase, manage and control all necessary resources. The role of staff and supporting departments in this period of growth was focused on supporting continuous growth. Many industrial corporations operated extensive engineering departments, employing a wide range of technical employees; in the services sector, up to the 1960s managing corporate real estate was in its infancy. In the 1960s, however, corporations started to rethink the role of corporate staff and supporting functions. Decentralisation of authority from corporate headquarters to national organisations and/or operating companies interfered with the traditional role of construction and control of real estate departments. Central real estate departments were driven to adopt a more consulting role. Responding to expanding organisations, many real estate departments replaced their traditional functional orientation with a more geographical orientation. The spreading of activities and authority ended the supremacy of the central departments. The increasing independence of operating companies and the increased geographical spread of business activities resulted in the foundation of local engineering departments. Many staff and supporting units started to transfer their activities to local subsidiaries.

Almost in contrast with the decentralisation of activities within many corporations, especially those in the financial services sector, corporate headquarters continued to play an important role. The physical concentration of the need for services and accommodation often created the need for supporting departments. The growing number of operating companies and headquarters staff often resulted in the need for additional head-office space. As a result many corporations operated special departments to manage the real estate and facility needs of the corporate headquarters, depending on the scale of headquarters activities and the level of centralisation within the corporation. For financial corporations, large portions of their activities were carried out at corporate headquarters. Continuous expansion also resulted in a growing need for both corporate headquarters accommodation and a reconsideration of the role of headquarters and corporate staff departments. The importance of corporate headquarters results – contrary to more technically oriented engineering departments – in the establishment of internal service departments, which provide all kinds of services with regard to accommodation. Unilever, Royal Dutch/Shell, ING, and ABN AMRO operated special services departments to support headquarters’ activities.

Industry sector
In most industrial corporations activities related to real estate related activities are primarily organised country by country. In addition to national technical and engineering departments, corporations also maintained technical or engineering divisions as part of their corporate staff. To facilitate local autonomous growth, the need for local engineering departments grew. Local technical departments often consisted of
two major parts: engineering and maintenance. Engineering was primarily focused on the design and construction of new buildings and installations, while maintenance was focused on guaranteeing the continuity of existing buildings and installations. Increasing decentralisation resulted in a strengthening of local technical departments and in increasing pressure on central service units. Depending on the scale of activities in the various countries, national engineering or real estate departments were established. Given the centralised organisations within many corporations, the activities of local/national departments were communicated to and coordinated by a central department, usually belonging to corporate headquarters.

In 1940 NV Philips Gloeilampenfabrieken employed 45,000 people spread across 47 national organisations; in the 1960s that number had risen to 412,000 employees spread over 60 national organisations. Simultaneously with the increase in the total number of employees working for Philips, the total area of office and manufacturing space grew at a similar pace, from 1.3 million to 4.4 million m2. The enormous increase of the value locked into real estate (in the period 1956-1961 the total value increases by 93 percent) resulted in reconsideration of the activities.

The continuous growth of the corporations and a parallel expansion of their real estate portfolios required large amounts of capital. The increasing size and value of the real estate portfolio prompted corporations to reconsider their existing real estate strategies. In addition to, or parallel to, the reconsideration of the corporate real estate strategy, several corporations came up with alternative options for financing corporate real estate. The objective of financial restructuring was necessary to avoid locking up more and more capital in bricks and mortar. Moreover, the increasing post-war geographical spread meant that the expanding real estate portfolio included an increasing percentage of buildings indirectly related to production, such as office-buildings, warehouses, and R&D buildings.

The separation between local and corporate departments also resulted in a division between 'operational' and 'strategic' activities. In most cases the division between strategy and operations also involved a formal and organisational distinction between departments representing the owner of the buildings and those representing the users of the buildings. While local departments were primarily involved in supporting local business-units in their daily efforts, corporate departments were mainly involved in setting corporate guidelines and policies. In addition to decentral departments many corporations maintained a central engineering department at corporate headquarters. In the case of process-oriented corporations engineering departments were often closely linked to R&D; bundling product/process innovation and the expertise needed to construct the facilities. While operational activities were delegated to local/national 'subsidiaries', central departments remained in control of:

- authorising investment proposals,
- monitoring approved budgets,
• design and construction management,
• exchanging of knowledge, and
• guarding a rational construction policy.

Whereas centralised departments at corporate headquarters were still involved in authorising investment decisions, and in some cases even in the design and construction of buildings, more and more operational activities were being left to local departments. Often local engineers supported local plant managers on real estate related matters. Continuous expansion of the individual operating companies and the consequent need for construction of accommodation demanded local capacity and knowledge. Real estate departments at corporate headquarters were becoming more and more involved with and restricted to setting guidelines and approving investment proposals. While industrial corporations maintain in-house architects and engineers, the role of these departments has decreased over time. Decentralisation is like a red rag to a bull. While the first two decades were characterised by continuous growth, in the beginning of the 1970s corporations encountered the first ripples on their pond of unbridled expansion. Rising competition and the increasing cost of doing business forced corporations to rethink their existing structure and strategies.

Services sector
Compared to industrial corporations, most services corporations were still focused on the Netherlands. Not only was their scale of operations more limited, their needs with regard to real estate management are also different. The different nature of activities also effects the requirements of individual buildings and of the corporate real estate portfolio. Retail outlets and branch offices are important elements in both the real estate portfolio of a corporation and the corporate value chain. Finding new locations is an essential element in the growth of all corporations doing business from branches. Besides creating financial constructions to gather enough capital to finance expansion, domestic growth can be halted by a lack of new locations. To support corporate growth, specialised departments were founded to establish a more scientific approach to site selection. Besides branch networks, portfolios of services corporations often consist only of headquarters' buildings and warehouses. Within retail firms, real estate activities were still coordinated and managed by the founding family. In both retail and financial corporations, generally supporting services were highly centralised and concentrated at corporate headquarters.

“When I was working in Turkey as national manager for Unilever the country was confronted with an earthquake. All the buildings in the surrounding were destroyed, except the roman aqueducts and the buildings designed by Unilever Engineering.”

Both retail firms analysed in this study expanded primarily through autonomous growth. For a long time the founding family controlled both firms, and both corporations were only active in the Netherlands. Nevertheless, like all retail
corporations of that period they remained primarily active on their domestic markets. Given the limited geographical and product diversity of activities, both retail corporations maintained a centralised functional structure for their organisation. Staff and supporting departments, including real estate, reported directly to the board of directors. With the scope of activities limited to the domestic market, the real estate departments were primarily focused on finding new locations for the retail outlets. In the early 1970s saturation of the domestic retail market drove both corporations to expand their scope of activities. Both retail corporations analysed in this thesis started to diversify in terms of both product range and geography. The mode of growth adopted was to expand into new markets through acquisition of local companies; acquiring local companies provided the opportunity of benefiting from existing local experience. To adapt their organisations to such expansion functional organisational structures were transformed into divisional ones.

<table>
<thead>
<tr>
<th>Selected strategies of Ahold in 1969</th>
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<tbody>
<tr>
<td>present activities</td>
</tr>
<tr>
<td>1. Improve results of present activities</td>
</tr>
<tr>
<td>4. Acquire food and drug stores abroad</td>
</tr>
<tr>
<td>new activities</td>
</tr>
<tr>
<td>2. Strengthen general merchandise in the Netherlands</td>
</tr>
<tr>
<td>3. Develop new activities</td>
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</tbody>
</table>

In May 1969 the Board of Albert Heijn invited the consultants McKinsey to develop a new corporate strategy. This new strategy distinguished four different growth strategies (see Table 6.1). The international expansion of Royal Ahold began in 1977 with the acquisition of the North American retail firm ‘Bi-Lo’. By 1997 the North American activities of Ahold had expanded to a total of 55 percent of the total sale.

The entrance of Anton Dreesmann Jr. to the Board of Directors of Vroom & Dreesmann (Case: Vendex International) was the beginning of a period of both product and geographical diversification. In 1970 all of its independent companies were dismantled and a centralised organisation was created. Upon unification it became clear that some companies owned valuable properties that were not used to their full potential. These properties were therefore used to finance the expansion and diversification of Vroom & Dreesmann (V&D). Parallel to its centralisation V&D established two real estate departments – ‘corporate expansion’ and ‘property management’ – to be led directly by the president of the Board of Directors.
Up to the 1960s the financial corporations focused primarily on their domestic activities. Although the corporations studied already operated some international activities – largely maintained through agents – the majority of activities were concentrated on the domestic markets. The organisational structure of most financial corporations was therefore functionally oriented. Due to the broad scope of financial services often offered, many corporations were structured to serve different markets. Departments involved in managing the corporation’s real estate portfolio were housed at corporate headquarters and reported to the board of directors. The position of these real estate departments was furthermore influenced by the importance of the corporate headquarters site in the total real estate portfolio. The impact of headquarters accommodation in some cases even resulted in the establishment of special departments to service the needs of the corporate headquarters alone. When they expanded their international activities most of financial corporations maintained their market-oriented structure. The mere fact that the large majority of their activities and therefore their real estate portfolio were located in the Netherlands was sufficient reason for incorporating real estate departments in their domestic division.

In 1964 the Rotterdamsche and Amsterdamsche Bank (Case: ABN AMRO) merged to form AMRO bank. In the same year the Nederlandsche Handel-Maatschappij merged with the Twentsche Bank to form ABN. Both mergers were mainly a response to increasing diversification in the financial world, the international trend towards concentration and the enormous growth of retail banking in the 1960s, which brought with it a demand for economies of scale.

The effects of internationalisation and automation were declared as the two most important motives for the merger between ‘Nationale Levensverzekeringbank’ and ‘Nederlanden van 1845’ into Nationale-Nederlanden (NN) (Case: ING Group). In 1963 these two largest insurance companies in the Netherlands decided that cooperation provided more opportunities than competition.

The simplicity with which services corporations were able to expand their domestic branch networks was coming to an end in the 1960s. Market saturation and increasing competition led to increasing difficulty in finding the new locations needed to expand business activities. While corporations had previously been able to acquire new locations through personal contact with local authorities, as of the 1960s a more professional approach was needed. The necessary changes in acquisition strategies also influenced the role and importance of the departments concerned. Besides technically oriented departments, often in charge of technical maintenance and construction, many of the services corporations operate special departments taking care of the interior of the buildings. Following the professionalisation of the Dutch real estate market in the late 1960s and early 1970s, corporations were able to involve outside parties and contract out activities. Due to the absence of service providers many
industrial corporations established their own real estate departments, which incorporated a broad range of disciplines and employed large groups of people. The traditionally central role of real estate departments in many industrial corporations resulted in a rapid expansion of in-house real estate activities, commensurate to business activities. Due to their central role, these departments were also able to enforce the continuity of their role.

*Between 1960 and 1970 Albert Heijn (Case: Royal Ahold) increased its financial capital from NLG 10 to 25 million in order to finance expansion through its stores.* Due to legal problems, the protests of local shop-owners, and the huge amount of capital needed to cover construction costs and the starting losses, Albert Heijn was increasingly faced with problems in finding new locations. In 1966 Albert Heijn established a real estate department – ‘Directoraat Onroerend Goed’ (DOG) – which was involved in the acquisition of new locations and properties, site-selection, disposal, management and location analysis.

To limit the amount of money locked up in bricks and mortar, Albert Heijn together with external investment firms founded a number of legal entities. The entities were seen as legal constructions for acquiring capital rather than setting up a real estate investment firm. This enabled Albert Heijn to allocate financial capital to its core businesses rather than real estate.

*In 1967 Nationale-Nederlanden Vastgoed (NNVG) (Case: ING Group) was involved in the acquisition of real estate – mainly housing – and with the construction of corporate headquarters for Nationale-Nederlanden. At the beginning of the 1970s government subsidies for housing decreased while simultaneously the market for office space started to flourish. In response to these transitions NNVG started to develop and invest in office buildings for third parties.*

*In its 1995 annual report NMB (Case: ING Group) announced that the bank was growing rapidly and, as a consequence, so was the need for buildings. The continuous extension of existing buildings and the construction of new buildings required a great deal of capital.* As a result of the old uncoordinated branch network it inherited, the establishment of a real estate policy by NMB was delayed. The first policy plan was presented to the NMB Board in 1960; the first offensive expansion plan was presented in 1963.

The second phase in the development of real estate management ended at a time when both the nature of the real estate profession and the complexity and dynamics of the corporate environment were changing rapidly and drastically. As described in Chapter 3 and throughout this section, the post-war decades led to a new perspective on managing a corporation’s real estate portfolio. Up to the 1980s the corporate environment can be described as predictable and stable; the organisation of corporations was suited to this environment. The complete transformation of traditional functionally organised,
family-run, domestic firms into multinational corporations controlled by shareholders radically affected the role and position of staff and supporting departments, including those involved in managing the corporation's real estate portfolio.

6.4


The beginning of the 1980s was a true turning point in corporate perspective on managing corporate real estate portfolios. Both the turn-around in corporate strategic thinking and changing demands for accommodation transformed the discipline of real estate management. Since the 1980s the corporate real estate profession has been heavily influenced by transitions within the corporate setting. Internationalisation has not only opened up new opportunities but has also confronted corporations with the difficulties in managing a global real estate portfolio. Mergers, crises, and reorganisations have forced corporations to review their in-house activities. Almost every corporation analysed in this study has had to cope with these sorts of events.

The concurrence of a number of mostly external shifts during the 1980s and 1990s provided compelling stimuli for the transformation of the real estate discipline:

1. First of all, corporations were faced with saturation of domestic markets combined with upcoming competition from 'Asian Tigers' affected the profitability of Western corporations. Pressure to increase profitability meant, in turn, pressure to reduce costs. The elimination of large numbers of employees, cuts in inventories, increased utilisation of capital equipment, divestment of assets whose returns fall short of the cost of capital, and reengineering of processes are all outcomes of such a preoccupation with the bottom line.

2. A second major transition increased pressure on profitability even further: increasing pressure on management from shareholders and from the financial markets especially - through the threat of take-overs - has created a strong pressure on top management to maximise returns to shareholders.

3. In line with corporate restructuring corporations increasingly focused on their core activities. Activities that provided no competitive advantage, or could be provided by outsiders at more competitive prices or better quality, were outsourced. This third trend, affecting staff and supporting departments, triggered a new attitude to managing a corporation's real estate portfolio. Outsourcing of real estate activities was, however, only possible because of the availability of professional service providers. Unavailability and unreliability of commercial service providers were up to the 1980s the main reasons for the necessity of owning and controlling real estate activities. The process of outsourcing supporting, non-core, activities has had enormous effects on the nature of in-house real estate management activities and consequently on the size and scale of the real estate management departments.

4. The professionalisation of the (Dutch) real estate market not only opened up new opportunities, but also introduced a competitive element for what had been
'protected' staff and supporting departments. As a result of this fourth trend, in-house departments were stimulated to re-evaluate their traditional role and position.

To enable operating companies to compete more effectively, multinational corporations continued to decentralise operational authority from their corporate centre or national organisations to their individual operating companies. While in the 1980s most corporations had been organised along geographical lines, corporations started to transform their organisational structures into product oriented ones. The decreasing range of activities controlled by the corporate headquarters included real estate. As a non-core, supporting activity real estate is in most cases positioned within the setting of supporting national organisations.

The increasing reliability of commercial logistics firms in the early 1980s brought to an end the need for Unilever to own and manage its own shipping fleet. Up till then Unilever had control – and own – a huge transport fleet to guarantee reliable delivery of its products. This fleet included trucks, river barges and even ships. For example, Norfolk, the carrier between the Netherlands and the United Kingdom, used to be owned by Unilever. A similar transition occurred within CREM.

The establishment of a domestic, national, support organisation was enhanced by the introduction of the law on works councils in the Netherlands. In order to limit the control of works councils to domestic activities many of the corporations analysed clustered their domestic activities in separate legal entities. Parallel to the decentralisation of operational authorities, many corporations also decided to decentralise economic ownership of real estate to operating companies. The repositioning of authority and ownership consequently influenced the role of real estate departments.

Besides an internal refocus on core activities, corporations had to weather a wave of mergers and acquisitions. The process of diversification in the service industry was mainly shaped by international take-overs, which began in the 1980s. However, in most cases the growth covered different geographical segments. In mature industries such as the financial sector the prime argument was to gain control over markets. ABN AMRO, Royal Ahold, ING Group and AKZO Nobel are all the result of mergers and/or acquisitions in the 1990s. Most of the mergers were triggered by desire to:

- achieve economies of scale in production and product development
- create synergy between activities
- increase the availability of in-house expertise
- increase financial strength
- consolidate an overlap of activities.

Part of the process of mergers is the amalgamation and alignment of activities and structures. The effects of mergers and acquisitions influence staff and supporting
departments, such as real estate management. As a result of a merger, the corporate real estate portfolio will expand, resulting in an increasing complexity.

On 1 November 1995, MBO and NNVG merged to form ING Real Estate (Case: ING Group)\textsuperscript{9}. Both NNVG and MBO were already operating abroad. The use of the more widely known name of ING and integration of back-office activities were two reasons behind the merger\textsuperscript{11}. After having secured a strong position for itself on the domestic market, the development of ING Real Estate followed ING Group's course of international expansion, with a particular focus on emerging markets\textsuperscript{12}. The prime activity of ING Real Estate is investing the capital of the insurance business of the ING Group. A second important activity is developing and realising accommodation for the ING Group, which regularly opens offices all over the world.

As the newly acquired firms often operated in different markets and regions, within many corporations the acquired subsidiaries maintained their existing infrastructure and authority. Differences in markets and lack of relevant knowledge in the mother organisation supported the 'independence' of local subsidiaries. The influence of corporate headquarters on the planning and control of subsidiaries is generally limited to authorisation of investment proposals. Although attempts are being made to coordinate real estate activities on a global, corporate scale, most of subsidiaries run autonomously. The real estate departments of LaSalle National Bank – a subsidiary of ABN AMRO – and of Equity of Iowa – a subsidiary of ING Group – each operate separate and independent real estate departments.

Although the 1980s was a period in which corporations started to reconsider their corporate real estate management activities, for several corporations the same period was the kick-off of a new focus on managing the corporate real estate portfolio. While many corporations were decentralising real estate responsibilities to individual operating companies, several corporations in the second half of the 1990s initiated attempts to coordinate supporting activities.

\textit{In response to corporate expansion, and as part of a corporate turn-around in 1988, Ahold repositioned several staff departments, assigning them to separate subsidiaries, each with individual targets, returns, and responsibilities for their activities. In addition some departments were transformed into separate legal entities, e.g. Ahold Vastgoed. In line with such corporate trimming, and based on experience within US based subsidiaries, Ahold separated supporting staff departments from its core business.}

\textit{In 1984 the NMB (Case: ING Group) established a facility management division – including a CRE department – as a clustering of all supporting activities within the bank.}
Ahold's acquisitions in the United States introduced a new point of view on the added value of real estate departments. The real estate departments of its North American subsidiaries were more than in the Netherlands, involved in real estate development. Experience and knowledge obtained in the United States, combined with difficulties in finding new suitable locations in the Netherlands, transformed Ahold's domestic approach towards real estate management. Currently Ahold is taking advantage of similar learning strategies in the real estate departments of new subsidiaries in Eastern Europe and Southeast Asia. While all of its international subsidiaries operate independently, Ahold is striving to create synergies, for example through establishing worldwide centres of excellence.

As corporations are confronted with declining market shares and profits, drastic actions often have to be taken. Some of the corporations analysed for this thesis have faced severe problems during the last two decades. Freeing the capital locked up in fixed assets can be an important element in solving financial problems, thus supporting the continuity of core business. Besides being a financial burden, capital 'frozen' in real estate can also come in handy in times of crisis. The simple fact that corporations had to acquire real estate, due to a lack of alternatives, has provided a capital reserve. The mere fact that a corporation owns all its real estate – often on excellent locations in inner cities – can provide it with the financial backup it needs to survive crises.

When NV Philips Electronics was confronted with financial problems at the end of the 1980s, corporate real estate was a significant feature of the subsequent restructuring program. The task force 'Fixed Assets' was created to optimise Philips' corporate real estate portfolio. In the period 1991–1996 the task force 'unleashed' more than NLG 1,000 million by cutting back real estate assets.

In 1994 Shell International concluded that the financial performance of the corporation had dropped below the performance of other major oil companies. In mid-1995 a 'Central Office Review' resulted in a plan to reduce staffing at Shell's service companies in The Hague and London by 30 percent. These reductions also resulted in the 'disposal' of several buildings. Since 1995 the number of headquarters buildings in The Hague has been reduced from 7 to 3. Parallel to the reduction of the real estate portfolio, the headcount of the office services department – which includes accommodation services – has been reduced.

In 1993 Vendex International sold 27 retail outlets and 7 smaller department stores to Rodamco. In return, Vendex acquired an interest of approximately 20 percent in Rodamco Retail Nederland. The sale of Vendex's interest in Rodamco in July 1997 is in accord with Vendex's strategy to sell non-strategic participations and activities in order to allocate the funds to core activities. Rodamco Retail, a real estate investor specialising in retail property, was so interested in buying the portfolio that it agreed to three conditions introduced into the lease contract by Vendex.
• Vendex claimed to right to appoint someone to the Advisory Board of Rodamco Retail;
• Vendex claimed the first right of refusal (i.e. when a lease expires, Rodamco Retail has to offer Vendex a new lease first before they get in touch with other tenants);
• Should Vendex not extend the lease, Rodamco is not allowed to rent out the space to a competitive firm.

Besides being a mere tool to accommodate activities, real estate can also act as a symbol of change. Within a number of corporations, corporate real estate decisions caused uproar and were a symbol of a dramatic change in corporate strategies and structure.

The announcement of Philips Electronics in 1997 to relocate their corporate headquarters from Eindhoven to Amsterdam caused commotion. One year later Philips Electronics was once again the centre of attention when the Lighting division announced the intention to sell the ‘Lichttoren’, one of Philips’ first buildings and a symbol for the city of Eindhoven.

The announcement of Royal Dutch/Shell to sell four of its national headquarters in Europe sparked off a similar furor. As part of an attempt to create economies of scale in its European activities, Shell wanted to reduce the activities in each of the four countries concerned. In the autumn 1998 Royal Dutch/Shell announced its intention to close down its national (sales) organisations in the United Kingdom, the Netherlands, Germany, and France. Besides being an effort to reduce the cost of doing business, the closing down of these national headquarters was also an attempt to centralise activities within Shell.

Clearly, a number of corporations seem to be currently bundling their supporting activities. The benefits of such bundling are—besides the separation of core from non-core business—to be found in increases in economies of scale and scope.

"Business-units and service units within AKZO Nobel are fully responsible and accountable for running their business or service. No one needs to prove that to anyone. But surely, the most short-sighted behaviour would be not to use the wealth of know-how and services which we collectively own".36

"... Ahold’s corporate culture actively seeks to encourage teamwork among the various operating units to enable management to put the full resources of the company behind its pursuit of local goals. This is because the opportunity for synergy and economies of scale in behind-the-scenes areas... are growing rapidly."37

For a couple of years several corporations have been actively enforcing alignment between business and supporting activities. Instead of coordinating activities on a national or business-unit level, corporations are looking for opportunities to benefit
<table>
<thead>
<tr>
<th>Period</th>
<th>Sector</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-1940</td>
<td>Services</td>
<td>Domestic orientation, Retail, mainly family-run firms, Real estate to support corporate expansion, Important role of family members in retail firms</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>Early international mergers, International expansion, Establishment of local subsidiaries due to difficulties in control of corporations, Technical departments, Link between research and engineering, Centralised control of activities, Real estate departments to support expansion</td>
</tr>
<tr>
<td>1940-1980</td>
<td>Services</td>
<td>Domestic activities, Functional organisation, Growth strategy, Domestic growth through take-overs, After 1970, focus on internationalisation, Centralised organisation, Centralised/concentrated real estate management, National orientation, Financial constructions, Corporate architecture, Importance site selection</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>International activities, Geographical orientation, Divisional structure, Growth strategy, Expanding headquarters, Central + local branches, Engineering orientation, Real estate as means to production, Real estate organised within local business-units</td>
</tr>
<tr>
<td>1980-2000</td>
<td>Services</td>
<td>Expansion through mergers/acquisitions, International expansion, Product diversification, Geographical/market orientation, Centralised structure, Centralised/concentrated real estate, Refocus on role of central real estate departments, Activities focused on mediation and consulting</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>Divisionalised groups with business-units, Corporate restructuring, Rethinking of role of headquarters, Product orientation, Regiocentric, Decentralisation plus outsourcing, New initiatives to coordinate CREM, Activities focused on mediation and consulting, Real estate organised within business-units</td>
</tr>
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</table>
from their corporate advantages and from alignment between the various supporting disciplines within a corporation, such as information technology, human resources and real estate.

The mission of the Resource Management Division of ABN AMRO is to enable and service a global universal network bank through the creation of a global network culture, .... in order to optimise customer value and synergy between geographies, products and distribution channels. The division includes various departments including human resources, Central Services, Information Technology, and Facilities.

Shell Services International (SSI) was established in 1995 as a profit-and-loss unit of the Shell Oil Company in the United States. Currently SSI provides IT, administrative operations, human resources, accounting and other business services to Shell units world-wide. These 'other business services' also include activities related to real estate and facility management.

During the last few decades the corporate real estate profession has undergone a radical transition. The professionalisation of the real estate market, the transitions and transformation in the corporate setting, and the consequent changes in the role and position of staff and supporting departments, has spurred rethinking of how to manage the corporate real estate portfolio.

6.5

Transforming structures and transitions in strategy

6.5.1

Introduction

Although the general trends described in Chapters 2 and 3 are true for most corporations, the descriptions in Sections 6.2 – 6.4 indicate differences in the implementation of corporate real estate management. Although there are certain trends and similarities in the evolution and current role and position of corporate real estate management within the corporations studied [see Table 6.2], there are also some distinct differences. In an attempt to create unity in the diversity of implementation, Section 6.5 recapitulates the argumentation behind the most important and distinct similarities and differences. In line with the variables used to characterise multinational corporations a summary is presented of the impact of corporate characteristics on the implementation of corporate real estate management (Subsection 6.5.2). After the impact of the structure-related and strategy-related characteristics has been discussed, the chapter is rounded off with a concluding subsection (6.5.3) identifying the triggers for change and summarising findings.
During the 20th century the profession of managing corporate real estate has undergone a drastic evolution. Within all of the corporations analysed in this study the discipline has evolved from being a side issue dealt with by the founder/director to a professional discipline either supported by in-house staff or outsourced to service providers. While real estate resources and capabilities were originally controlled and managed by the individual corporations, in the past few decades dozens of alternatives have created the opportunity of delegating activities and responsibilities to parties outside the corporation.

One of the most important factors influencing the role and position of real estate departments is degree of centralisation. Upon foundation the size and scale of activities of corporations is relatively small, and decisions on real estate are taken care of by the founder/director. To support corporate expansion and the consequent need for accommodation, corporations establish real estate departments. These real estate departments support all business activities through the construction and acquisition of land and buildings. Although some real estate departments were initially positioned within a corporation as one of several key functional departments, in most cases the real estate department was positioned as a supporting department, reporting to the board of directors. In their pioneering stage most corporations are characterised by a functional organisation, mostly limited to a single product and/or market. Then, product innovation and ensuring the availability of new machines, accommodation and locations were essential elements in corporate plans for expansion.

In the early years, survival and increasing market share were prime concerns. Given the limited scale of activities, staff and supporting departments were centralised and concentrated at the corporate headquarters. Real estate was often positioned as one of the concern’s core disciplines; departments reported directly to the Board of Directors.

While international activities were initially supported by central staff and supporting departments, over time local subsidiaries were established. Parallel to the delegation of operational authority, the organisational structure transformed from one with a functional focus to one with a geographical or product focus. In line with the delegation of operational authority, operational activities concerning real estate are often taken care of at the local level; real estate departments at corporate headquarters only remained in charge of financial and long-term strategic issues. Similar to the arguments for establishing a real estate department, real estate subsidiaries are established whenever justified by the local scale and scope of activities. Upon increasing international expansion, corporations are confronted with new markets of which they often have no knowledge. As a consequence, the corporation has either to rely on outsiders to provide the necessary knowledge or services, or to gather the knowledge in-house.
Corporate departments have also changed the sort of work they do; these days they are more often only responsible for strategic control of activities. All local activities used to be coordinated from corporate headquarters, but decentralisation ultimately led to diminution of the original role of real estate departments positioned at corporate headquarters.

In addition to the tendency to outsource operational activities, the nature of real estate activities changed as well, becoming more focused on coordination and mediation. As a result of the delegation of authority and of profit responsibility, corporate orientation shifted towards a business-oriented structure. This transformation confronted the corporation with the differences between corporate goals focused on synergy and local goals focused on autonomy.

Up to the 1980s, most corporations primarily aimed for expansion and diversification of activities. As a result their prime objective with regard to real estate was the ‘delivery’ of new accommodation. While in times of ‘unbridled’ economic growth the costs involved in real estate were no problem, during the 1980s those costs increased and became more of an issue: a phase of reconsideration began. Why should a corporation keep doing and controlling activities when others can do these better and/or cheaper?

Increasing attention paid to shareholder value and profitability, and the consequent focus on core business activities, has affected the role of staff and supporting departments. While corporations were eager to delegate non-core activities, the professionalisation of the real estate market offered opportunities to provide the services needed. Many operational activities, often delegated to operating companies or national organisations, are outsourced to commercial service providers. While some corporations maintain large departments to serve the corporate headquarters, the size and responsibilities of these departments are drastically reduced. The combined effects of the push to outsource activities and the delegation of authority has changed the raison d’être of real estate departments and increased pressure for them to prove their added value to the corporation. In the above transformations a transition is noticeable from the traditional centralised/concentrated structure established at the foundation of organisations, via structures that can be described as delegation or laissez-faire towards the current trend of coordinated structures. Figure 6.2 depicts the transitions in the level of centralisation and concentration.

The centralised structure, in which most corporations began led to close relations between all activities, characterised by strong central services. Decentralisation of operational authority brought with it a change in the relationship between the corporate centre and operating companies. Instead of providing central services, the corporate centre in its new role influences linkages between operating companies and implements a corporate strategy. In keeping with these transitions, organisational structures evolved from those with a functional to those with a divisionalised structure with groups.
As a role of the CRE department changed, so did its position. In most corporations, real estate departments started off as highly centralised units. Later these formerly centralised departments were reduced to small units that mediated between internal demand and external service providers. Then, often after only a short transitional period of internal outsourcing, most industrial corporations closed those units and now maintain little coordination with regard to real estate. Although a similar tendency is noticeable within service corporations, many of their real estate departments are still very much involved in project management and controlling activities. International or corporate-wide coordination is missing in all corporations, however. Although most operating companies initiate decisions on real estate, all large investments or long-term commitments need formal approval by the board of directors. In line with their controlling role, real estate departments in most services corporations act as consultants to operating companies or the board of directors. Within most of the industrial corporations involvement is limited to a consultancy role.

The position of real estate departments in most of corporations has evolved from being part of the corporate centre – or in some of the industrial corporations even a separate division – to becoming part of domestic operations. Due to their pattern of growth most services corporations maintain a separate, independent status for their international subsidiaries with regard to staff and supporting departments. During the last couple of years corporations have tended to set up resource or service divisions that combine support for human resources, information technology and corporate real estate. This transition is translated to positions within the corporate organisational structure in Figure 6.3.
In response to corporate transitions and transformations, real estate departments are not only are confronted with changes in their role and position but they also have to change their mindset, because changes in activities often require different skills. While most of the real estate departments originally employed highly skilled building technicians, in the course of time the required skills changed. The technical, operational aspects were either delegated to the operating companies or outsourced to third parties. In so far as corporations have retained a corporate real estate department, the nature of the activities, and consequently the skills demanded of its staff, have shifted towards financial and general management.

In the discussion in Chapter 3 on the evolution of thinking about real estate from a corporate perspective, I have presented a diagram (Figure 3.7) depicting four perspectives on managing a corporate real estate portfolio. Transitions in the role and position of real estate departments can be described by changes in prime focus. The initial real estate focus of most corporations was primarily facilitating their continuous
need for accommodation. However the increasing size of the portfolio in the course of time required a managerial approach. During the growth phase, the corporate view is characterised by both a facility and a general management perspective. Increasing geographical and product diversity enlarges the organisational distance between the interests of the corporate centre and those of the operating companies. The focus of the corporate centre is heavily influenced by the increasing amounts of capital allocated to real estate. While the corporate focus can be characterised as an asset management perspective, operating companies usually maintain their facility management focus.

The description of transformations in corporate structure already reflects differences in corporate strategies. While corporations in their pioneering stage were primarily concerned with survival and growth in market share, which has an impact on real estate policy, the growth, maturity and especially the decline stages also affect the role of real estate. The effects of these transitions are analysed in relation to the corporate life cycle. Table 6.4 presents an overview of the transitions and transformations in corporate thinking on real estate management. Although Table 6.3 might appear to be similar to Table 6.2, its focus is different: i.e. on corporate life cycle.

While the above transitions occur in both services and industrial corporations there is a clear difference between the two in the timing of the events. In terms of both their growth (size) and internationalisation, developments took place later in services corporations. In the search for new markets and/or raw materials industrial corporations started internationalising their activities early in the 20th century, yet most of the services corporations remained confined to the Netherlands until the 1960s. Besides the difference in timing of developments between services and industrial corporations, there is also a distinct difference in the nature of their real estate activities. Industrial corporations are often characterised by the dominant impact of machinery and installations on their operations, resulting in a close relation between the construction of (industrial) buildings and the development and design of installations. For this reasoning, the relation between real estate and R&D activities can be very close. Moreover the life cycle of tailor-made buildings, constructed to accommodate industrial processes, is closely related to the life cycle of the products produced. The costs and expenses of real estate directly influence the cost of a product and, consequently, its commercial viability. This one-to-one effect is much less crucial for office buildings. For services corporations, buildings and locations often play an important role in the interaction between the corporation and its clients. The accommodation of their business processes – e.g. retail outlets or banking branches – therefore demands more care in the design, layout and interior of the buildings. Real estate thus becomes an important element in the core business of these corporations, which is reflected in the role and organisational position of their real estate departments.
Table 6.3  
Evolution and characteristics of CREM and multinational corporations

<table>
<thead>
<tr>
<th>CRE portfolio</th>
<th>Private accommodation or small factories</th>
<th>Multiple facilities to handle manufacturing, distribution, and office functions are spread growing area</th>
<th>Facilities owned are being expanded while new locations are being leased or constructed throughout the entire region; frequently the administrative headquarters will be separated from production / marketing facilities, causing an expansion of real estate activity</th>
<th>Disposal of obsolete properties. More deliberate distinction between owned and leased properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREM</td>
<td>Activities coordinated and handled by director/ founder or family members</td>
<td>Usually a main office (frequently company-owned) will be built during this stage, utilising outside expertise. The main office usually requires limited facility management. Leasing or construction expertise may also be required</td>
<td>Leasing, management, construction, legal, and financial real estate expertise will be required</td>
<td>Outsourcing of activities, reconsideration of role of real estate department</td>
</tr>
</tbody>
</table>

![Diagram](chart.png)
While the establishment of a real estate department in most of the industrial corporations was stimulated by a need for accommodation, within many of the services corporations their establishment was stimulated by the need to find suitable locations. For Royal Ahold, finding new locations was, for example, a key factor in the activities of its real estate department. Both its foundation and a subsequent reorganisation in the mid-1990s were triggered by the need for more and new locations. Besides activities related to accommodation both financial firms studied in this research operate real estate investment and project management departments. While investments in real estate are a solid investment with which to guarantee pension and insurance payments, project management provides an opportunity to earn an additional return on the capital of the savings accounts of the firms' banking activities. Although these are also real estate activities, due to the different nature and role they are only slightly aligned with CREM.

Obviously CRE strategy is closely related to the role of the department within the context of the corporation. Just as a distinction has been made between activities at the corporate centre and activities delegated to the operating companies, so a similar distinction can be made with regard to strategies. Activities related to facilitating production and managerial processes have often been delegated to departments at the level of the local operating company. CRE departments remaining at corporate headquarters tend to focus on promoting human resources objectives and capturing the value of real estate. A second element influencing the nature of CRE strategy is the phase in the corporate life cycle in which the corporation is operating. While a pioneering or growth phase is characterised by a strategy focused on facilitating business processes, other strategies – for example, capturing the value of real estate or cost minimisation – are more suitable in the decline phase.

Almost every one of the corporations analysed has had to face the effects of mergers and/or acquisitions. The growth and expansion of the large majority has been enabled by taking over other firms, either to provide an entrance to new markets or to create economies of scale. Both Royal Dutch/Shell and Unilever are a result of Anglo-Dutch mergers. Besides the influence of the two national cultures, the effects of the merger and the agreements made at the time can still be recognised in the organisational structure of both firms. Mergers and acquisitions not only affect corporations through increasing their size but also through the realignment of activities that follows, including real estate. Besides merely expanding the real estate portfolio, amalgamating and realigning activities and structures is an important aspect of mergers and acquisitions. As perspectives on the role and position of staff and supporting departments differ from corporation to corporation, so corporate mergers also trigger discussion about the role and position of those departments, including CRE departments. While corporations that primarily expand in an autonomous manner tend to operate a concentrated and often centralised
supporting department, growth through mergers and acquisitions generally results in deconcentration and decentralisation of CREM.

One of the key concepts in establishing a framework for this research (the resource-based view, Subsection 4.3.3 and Section 4.4) was that of synergy. From a review of the evolution of the corporation in general and of real estate departments in particular, transitions in the sorts of synergy created can also be identified. The large architectural and engineering departments within many of the corporations studied are examples of vertical synergy, aimed at creating operating efficiency. A highly centralised organisation controlled all activities between the operational activities. Initially coordinated on a corporate-wide basis, activities were for a long time coordinated country-by-country. The geographical clustering and coordination of activities stimulated horizontal operating synergy.

The transition from geographically oriented organisations towards product-oriented organisations leads in a focus on sales synergy and stimulates alignment of investments and to specific products. As a result of transformation of the corporate structure and the consequent abandonment of a traditional, centralised organisation it became difficult to continue to align activities on a national and horizontal basis. Although some corporations continue to enforce alignment, within most corporations the
decentralisation of operational authority brought an end to horizontal and vertical synergy. In the last couple of years an increasing number of corporations, have established a resources or service division, in most cases to increase focus on horizontal synergy, particularly in sales and management. The launching of these new initiatives and their added value in managing a corporate real estate portfolio is addressed in depth in Chapter 7.

6.6

Summary

This chapter provides an overview of the various forms of corporate real estate management. Clearly there is no one best solution. Every organisation has to establish a balance between operational responsiveness and the advantages of economies of scale. Managing a corporation's real estate portfolio is about finding the right balance between optimising the performance of the real estate portfolio – for example, minimising costs and increasing returns on investment – and the value of real estate to core business processes. Each balance is tailor-made for the organisational setting; each has its pro's and con's.

A review of the evolution of corporations in general and of the departments specifically involved in managing corporate real estate has identified a number of critical elements. Some steps have, however, had more impact on the evolution than others. Major changes in corporate structure and strategies following mergers, major acquisitions and financial crises, have forced a reconsideration of the role and position of CREM. Indeed, confrontation with such crises led to the realisation that real estate can be a saviour in times of financial distress; reconsideration of the role and position of CREM then followed.

In line with the first objective of this thesis, I have described the relation between characteristics of multinational corporations and the role and position of CREM. The role and position of corporate real estate management in Dutch multinational corporations and the characteristics of those corporations can be described on the basis of a number of findings. The following listing pinpoints the 10 most important conclusions:

1. Although there are a large number of corporations, each facing unique challenges and coming up with individual solutions, the number of CREM configurations is relatively small.
2. Increasing geographical and/or product diversity within the business activities of a corporation precipitates a separation between local operational activities and strategic/financial activities at corporate headquarters.
3. Increasing physical and hierarchical distance between corporate headquarters and local operations results in the establishment of local, national or regional staff and supporting departments.
4. Coordination of real estate activities and achievement of economies of scale are essential arguments in the establishment of real estate departments. Whether the departments are positioned within a corporate centre or within national organisations or operating companies depends largely on the scale and scope of the activities.

5. Internationalisation of corporate activities and the resulting geographical spread of the real estate portfolio require a broader spectrum of knowledge and results in increased use of external service providers.

6. The existence of centralised corporate real estate management leads to more efficient use of the real estate portfolio and increases the profitability of the corporation.

7. The pattern by which an organisation expands – either autonomously or by take-overs – influences CREM; the autonomy of operating companies increase.

8. The initial reasons for introducing CREM and the initial role and position of CRE department still influence the current structure and strategies of CREM.

9. Over time management of corporate real estate departments has undergone a transition from centralised steering to decentralisation of activities and on to the current focus of coordinating activities.

10. Over time the focus of real estate activities in departments within a corporation has evolved from construction to accommodation, and further to the current role of mediation.

6.7

Notes

1 Jonge, J.A. de (1976), De industrialisatie in Nederland tussen 1850 en 1914, Nijmegen.


5 Van Kavel tot Centre, De geschiedenis van het AKZO Nobel Centre te Arnhem, AKZO Nobel Nederland bv, 1997, Arnhem, Van Kavel tot Center, published on the occasion of the 12.5 anniversary of the Service Unit AKZO Nobel Center.


7 The FA factory constructed in 1926 and used for the production of wires, became obsolete in 1976, and was demolished in the second half of the eighties, while the monumental tower was demolished in 1992 [., Van Kavel tot Centre, De geschiedenis van het AKZO Nobel Centre te Arnhem, AKZO Nobel Nederland bv, 1997, pp. 13-16].

8 Unilever Corporate Archives (0127).

9 Unilever Corporate Archives (0139).
10 Unilever Corporate Archives (0118).


16 Unilever and Shell profited from their bi-national status; Philips Electronics established a trust company in the Netherlands Antilles, leaving only an operating company in the Netherlands. Philips Electronics set up an operating company which paid rents on fixed assets and bought the stocks in the warehouses [Bekooij (1991), p. 100].


18 Quote of Floris A. Majers, former president of Unilever NV.

19 In 1976 Ahold España SA was founded and the first of a series of retail concepts. In 1984, after eight years, Ahold operated 37 branches in Spain. The return on investment of the Spanish activities were, however, not satisfactory. In 1985 Ahold sold its Spanish activities to the British Dee Corporation [Jager, J.L., 1995, pp. 245-247].


23 Besides the full merger between the two insurance firms two other predecessors - Rijkspostpaarbank (1881) and Postcheque- en Girodiens (1918) - also started to corporate more intensively.


25 Some examples of the expansion are a shopping mall in Amstelveen, opened in 1961, with 960 m² and 5600 different articles spread over ten 'stores' - spices, butcher, bakery, vegetables, etc. - and an even bigger store in Amsterdam-Osdorp (1963) of 3100 m² and more than 7400 different products [Jager (1995), p. 183].

26 - (1956), Versteviging en groei, Naar Meer Balans, 9e jaargang, nr. 12, pp. 143-144.

27 - (1967), Hier bouwt de NMB, Naar Meer Binding, Special ter gelegenheid van het 40 jarige jubileum, November, pp. 188-189.

28 In 1972 the Dutch government accepted a law on workers councils. In response, corporations brought their domestic activities under the control of separate legal entities in order to limit the influence of workers councils. Consequently AKZO Nobel Nederland, Shell Nederland, Unilever Nederland, etc., were formed.


7.1 Introduction

Only a few decades ago many corporations, although not professionally active in the real estate industry, maintained large engineering and architectural departments. Changes in corporate setting and a professionalisation of the real estate market opened up new challenges for managing the corporation's real estate portfolio. Traditional supporting departments were founded to provide professional support and to guarantee the availability of sufficient numbers of competent staff. In time operational and technical activities were delegated to operational business units and ultimately outsourced to third parties. Products and services merely based on the availability of skilled employees are no longer regarded as being a competitive advantage: standardised products and services are now available from service providers at more than competitive prices. Transformations and transitions in corporate structure and strategy affected the traditional role of real estate management and triggered the need for a new perspective on the added value of CREM. Operational effectiveness has been degraded to a mere necessity. Currently CRE departments are urged to identify their competitive advantage, and to provide services/products that deliver added value.

"Successfully managing diversity also means that we are eager to learn from one another. Be open, and use the strengths of your colleagues within AKZO Nobel. Their ideas are as good as yours and often better. Tap their brains while drinking a glass together. Use one another, look for the synergy between business units and/or service units: there is where you find new business opportunities, the real added value of our company." ¹

In line with the second objective of this thesis, this chapter focuses on pinpointing the added value of CREM and relating the nature of that added value to the characteristics of the corporations studied. Section 7.2 addresses the changing points of view on added value related to managing a corporation's real estate portfolio. Starting off with arguments for establishing real estate departments, an overview is given of the most
important arguments that triggered a change in the traditional perspective on added value of CREM. The overview of new ways of looking at added value is completed with a list of products and services that add value – as presented in Chapter 4, Table 4.4 – which is then used in the process of analysing the various cases. Each case is reviewed based upon the nature of the added value achieved in managing the corporation’s real estate portfolio. Section 7.3 provides an overview of the implementation and practical relevance of each of the element of added value. Following the identification of those elements, Section 7.4 aims to relate the nature of added value to the strategy and structure-related variables of corporations in general. Relating corporate characteristics to ‘suitable’ elements of added value ultimately provides insight into the practical and organisational requirements for implementing a synergistic approach to CREM.

7.2 A changing perspective on added value

Up to the 19th century, real estate was mainly used to accommodate people and their activities, or to express the wealth of those who ordered the construction of the buildings. The rapid growth of commerce and industry at the beginning of the 20th century, and the consequent need for buildings, led to increasing amounts of capital being allocated to real estate. While accommodating early industrial activities was entirely the responsibility of the founder/director of a corporation, at the beginning of the 20th century corporations started to establish staff and supporting departments to manage the corporation’s real estate. Lack of alternatives at that time forced corporations to own and manage both building and supporting real estate services.

From a review of the various arguments for establishing real estate departments, a clear distinction emerges between industrial and service corporations [see Table 7.1]. The prime reason for both sectors to establish a CRE department is to support their continuous need for accommodation and related services. Within industrial corporations, the majority of real estate related departments were founded to assist with the construction of new buildings. Departments were run from a technical point of view and employed a broad selection of professionals. Contrary to the technical orientation of ‘industrial’ real estate departments, most departments in the services sector were founded to acquire more knowledge about real estate so as to expand business activities.

Since the foundation of the first generation of real estate departments, both corporate setting and real estate market have changed. Increasing autonomy of operating companies within multinational corporations affected the traditional central control of staff and supporting departments. In most of the corporations reviewed in this research, operating companies are no longer obliged to use the products and services provided by existing departments. Arguments such as assuring the availability of well-trained employees or controlling activities of operating companies are no longer seen as valid justifications for maintaining in-house departments. The parallel professionalisation of
<table>
<thead>
<tr>
<th>Argument</th>
<th>X</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous need for accommodation/services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost reduction and assuring availability</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Developing real estate as a means of business</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Finding new locations</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Lack of time and knowledge of real estate</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>To limit capital allocated to real estate assets</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>To maintain an overview of activities and properties</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>To finance corporate expansion with real estate</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Standardisation of building design</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

the real estate market created the alternative providers of the services that corporations required. While needs for real estate were originally focused on meeting the continuous need for accommodation, nowadays the prime focus is on outsourcing services and reducing the impact of real estate on the corporate balance sheet. The nature of the added value has changed towards providing functional leadership and cost-effective services for businesses, as well as assisting line management in exercising stand-alone or linkage influence. The transitions and transformations in the role and position and, consequently, in the nature of the added value can be summarised in three important changes.

1. **Focus on resources and capabilities**
   Since the mid-1980s competitive advantage has been seen as depending less upon corporate choices in market positioning, and more upon the exploitation of unique internal resources and capabilities². The increasing focus on managing the internal resources and capabilities of a corporation resulted in a rethinking of the role of corporate headquarters and central staff and support departments. Through creating synergy a corporation is able to provide added value to its business units. Indeed, if there is no added value in joining business units together in one corporation, the
rationale for corporate existence is lacking. Coordination and management of the interrelationships within an organisation is a prime task of staff and support departments. In the attempt to pinpoint the added value of managing a corporation’s real estate portfolio, the concept of synergy is a useful starting point. The use of horizontal and vertical synergy as a base for products and services provides central real estate departments with a competitive advantage that is hard to imitate by both decentral departments and outside service providers.

2. Decentralisation of authority
Decentralisation of operational authority to operating companies and national organisations increases the difficulties in aligning these with corporate goals and objectives. Alignment of resources and capabilities both among operating companies and between operating companies and their corporate headquarters has become increasingly difficult. The potential conflict of interest between synergy and autonomy, and control and initiative, determines the relationship between corporate headquarters and operating companies. As a consequence the role and position of central staff are often the subject of discussion. While the 1980s can be characterised by a decentralisation of authority and a deconcentration of activities, since the mid-1990s there is a tendency towards more coordination. Creating economies of scale in production and strengthening financial power were already important objectives of the mergers and acquisitions that took place in the early 1990s.

3. A new focus on added value
Intensifying competition and increasing focus on the corporate bottom line has resulted in a corporate drive to identify the added value of the products and services delivered by their various staff and supporting departments. In their efforts to do so, corporations have overlooked the simple fact that many of their actions hardly result in a sustainable competitive advantage. Many corporations focus on outsourcing activities in order to reduce operational costs and so increase their competitive advantage. The basis of the problem many corporation faces is failure to distinguish between operational effectiveness and strategy. Providing cost effective and high quality products or services is no longer a guarantee for success, it is merely a valid entry ticket into the competitive arena. For many corporate real estate managers the ultimate definition of adding value and of their own management role has for a long time been focused on making decisions, and taking action. In contrast to the traditional transaction-oriented focus on real estate, real estate managers have to focus on the interests of corporate stakeholders. Each corporate stakeholder may have a stake, or interest, in some aspect of corporate performance. The ability to provide tailor-made products and services to meet the needs of various stakeholders is the foundation for providing a competitive advantage and pinpointing the added value of corporate real estate management to the bottom line of the corporation.
All three of the changes just described have stimulated and urged real estate departments to rethink their role within the corporation. Based on a review of literature with regard to the resource-based view and discussion with experts, Table 4.4 provides an overview of value adding products and services of CREM. All of the elements – summarised in Table 7.2 – are aimed at providing CRE departments with competitive advantages over outside service providers and can be used in discussions about the raison d'être of the department. The list is used as starting point for pinpointing the added value of CREM.

| Table 7.2 |
| Ten elements of added value |
| 1. Economies of scale in acquisition of products and services |
| 2. Alignment in use and management of real estate and real estate services |
| 3. Providing high quality services at competitive prices |
| 4. Knowledge of business and management processes |
| 5. Collection of scarce expertise |
| 6. Risk sharing |
| 7. Confidentiality and availability of information |
| 8. Formal and informal networks |
| 9. Strategy formulation, anticipation and innovation |
| 10. Speed of actions and transactions |

7.3 Pinpointing added value

The aim of this section is to provide an overview of the implementation of value adding products and services – as indicated in Table 7.2 – in the cases analysed in this research. From the results of the case studies and following the analysis of strategic thinking by Barnett and Berland, Table 7.3 summarises the implementation of added value in each of the eight cases studied in my research. Given that the objective of this research is to identify general tendencies, the names of the individual cases are of no relevance to the analysis.
Based on the number of examples of added value encountered during the analysis of each of the corporations, an indication is given of the importance of each of the value adding elements. If more than three examples of added value are encountered, the level of importance is rated as high. If there are one to three examples the relation is rated as medium. If there are no examples the level of importance is rated as low.

As clearly depicted in Table 7.3, both the number and nature of the elements of added value found in each corporation differs. In addition, a clear difference can be distinguished between the importance of the various occurrences. While knowledge of business and management processes and collection of scarce expertise are indicated in most of the corporations, implementation of other elements such as confidentiality and

<table>
<thead>
<tr>
<th>Elements of added value</th>
<th>Service corporations</th>
<th>Industrial corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale in acquisition of products and services</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Alignment in use and management of real estate and real estate services</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Providing high-quality services at competitive prices</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Knowledge of business and management processes</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Collection of scarce expertise</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Risk sharing</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Confidentiality and availability of information</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Formal and informal networks</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Strategy formulation, anticipation and innovation</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
<tr>
<td>Speed of action and transactions</td>
<td>o o o o</td>
<td>o o o o</td>
</tr>
</tbody>
</table>

*Table 7.3 The importance of the elements of added value through CREM*

* = high  
○ = medium  
□ = low
availability of information and speed of actions and transactions are scarcely recognised. Another immediate finding is that services corporations display a greater affinity for managing their real estate portfolio than most industrial corporations; all of the services corporations can point to at least six elements of added value, while some of the industrial corporations only indicate two references to added value. To obtain an indication of the practical implementation and relevance of the elements, each of the value adding products and services is reviewed in the remainder of this section.

Economies of scale in acquisition of products and services
The size of a corporation and of its real estate portfolio is closely related to opportunities to benefit from economies of scale. The possible benefits even increase if the portfolio is concentrated and displays little diversity. While all of the corporations analysed in my research can be characterised by a certain scale of real estate and real estate activities, only few of them actually benefit from economies of scale in acquisition of products and services. To benefit from economies of scale in acquisition of products and services, the corporation has to be able to coordinate these activities within the corporation as a whole. Within fully decentralised corporations, obtaining economies of scale often appears to be difficult. Corporations characterised by a market orientation often benefit from economies of scale obtained on a country-by-country basis, such as in supporting functions. Product-oriented corporations tend to benefit more from global purchasing of product-related products and services. The orientation of the corporation is also often closely related to the position of the CRE department.

*The Ahold USA Support group, located in Atlanta, has made considerable progress in coordinating a number of services for all US operating companies of Ahold. In 1998 a business plan to enhance synergy and cooperation among the sister supermarkets was developed further, ultimately increasing Ahold USA's operating results. One of the most important synergy initiatives is Project Compete, which focuses on coordinating information technology and joint purchasing, administration and finance, logistics and distribution. Project Compete is a good example of dynamic synergy and internal cooperation, without infringing on each operating company's autonomous position.*

Obtaining economies of scale is also one of the main reasons for acquisitions or mergers. The mergers of several of the corporations analysed in this research – e.g. ABN AMRO, ING Group, and AKZO Nobel – are amongst others driven by obtaining economies of scale. Besides achieving internal economies of scale corporations – and service providers – increasingly strive to create mutual (global) alliances.

*Since 1997, after the completion of the Centurion project, Philips has changed its views on real estate. As part of its corporate restructuring, it initiated a new programme focused on reducing Other Costs of Organisation (OCOO). The target of*
OCOO is to create an annual saving of NLG 1,300 million on these other costs, i.e. 12% of the total corporate expenditures of NLG 10,000 million. OCOO's aim is not only focused on reducing costs but also on avoiding future costs through smart buying. Cross-disciplinary knowledge teams support the programme, which is run by the operational business units. Within the program the following elements are addressed: accommodation, personnel, marketing & sales, distribution, automation / communication, professional services and production development.

Alignment in use and management of real estate and real estate services
While economies of scale focuses on the acquisition of products and services, scale advantages can also be realised through alignment of real estate activities and accommodation. Efforts to align the use of real estate and real estate services can be observed in several companies. Sharing of production locations or office buildings is probably one of the best examples. The joint use of some of the headquarters buildings of ING Group, by both Nationale-Nederlanden and the ING Bank, is such an example. Other example is the fact that within several of the corporations analysed, e.g. Royal Dutch/Shell and Unilever, small newly founded operating companies or national organisations are accommodated in or close to the corporate headquarters.

In November 1998 the CEO of Philips Electronics announced that Philips planned to close about one-third of its factories world-wide over the next four years. Compared to its main competitors, Philips concluded that its portfolio of factories was both larger and more geographically spread. Reduction and clustering of factories should result in more intensive use of the remaining factories.

Geographical and functional diversity of the real estate portfolio is an important limitation in the use and management of real estate and real estate services. Growth in diversity of corporate activities and the consequent diversity in the portfolio often occur simultaneously with corporate growth. Small and concentrated corporations, or operating companies, although perhaps missing the size and scale to benefit from economies of scale, are able to align more easily activities related to and use of real estate and other supporting activities. Given the fact that most of the industrial corporations analysed in this research are characterised by a greater diversity than the services corporations, it is often more difficult for them to achieve the alignment in the use of real estate and real estate services. Similar to achieving economies of scale, the position of the real estate department within the corporation, as a result of the level of centralisation and concentration, generally determines the degree to which this alignment can be achieved. Alignment is easier to achieve through one coordinating body within a firm. The foundation of service or resource divisions within several of the corporate cases in this research is an example of efforts to achieve economies of scale and also displays the relevance of alignment of resources and capabilities.
The Ahold USA Real Estate Company (ARC) supports operating companies in their real estate activities. Presently ARC owns over 20 operational shopping centers and more are in various stages of development in the trading areas of the operating companies.10

Aligning real estate portfolios is often one of the important after-effects of corporate mergers. Besides optimising the real estate portfolio, mergers and acquisitions are often also characterised by a restructuring of staff and supporting departments. Examples of such alignment – e.g. the merger of MBO and NN Vastgoed into ING Real Estate – are described both in the corporate cases in Chapter 5 and in Chapter 6.

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 2600.11

Providing high quality services at competitive prices
Of all of the elements of added value, providing high quality services at competitive prices is probably the most obvious one. Given the fact that in-house departments have to compete with outsiders, price becomes a critical element. The professionalisation of the real estate market and the unleashing of operating companies forced in-house departments to address the competitiveness of their products and services. While the technical knowledge of the departments was generally of excellent quality, the commercial and communication skills were often lacking. As most departments had been operating as a cost centre they were hardly geared to maintain competitive prices. Decentralisation of operational authority affected the existence of these departments. The presence of providing high quality services at competitive prices as an element of added value is only seen in corporations maintaining an in-house CRE department. While all of the services corporations value this element, only one of the industrial corporations shares this affection.
To provide high quality services at competitive prices, CRE departments have to possess a certain scale. Although providing high quality services at competitive prices is an important added value, the advantage is often created by the presence of other elements. As can be seen in Table 7.3, there is a close relation between the presence of providing high quality services at competitive prices and economies of scale and alignment in use. While the latter are essential components in accomplishing competitive prices, obtaining high quality services requires knowledge of the business and management processes.

Knowledge of business and management processes
One of the key reasons – all cases display examples of implementation – for the existence of real estate departments is knowledge of the business and management processes. To support the general needs of the corporation and operating companies, awareness is needed of their specific demands with regard to real estate. Increasing
geographical and product diversity, and decentralisation of operational authority, challenge the practical implementation of the knowledge element. Increasing diversity makes it difficult to be aware of all the details of the specific business and management processes.

Knowledge is also an important competitive advantage in competition with outsiders. As operating companies are allowed to consult outsiders in their real estate activities, real estate departments have a competitive advantage. The position of the real estate department within a specific operating company, division or national organisation, however, often limits the scale and scope of the knowledge available to the entity.

*Within Philips Electronics all real estate and facility management activities, including ownership of all properties, were delegated to the individual operating companies in the mid-1980s. Parts of the existing CRE department were sold to a professional service provider. Within the larger national organisations supporting departments are still in place to provide services on a commercial basis. Although operating companies are free to shop outside the Philips organisation, several companies in the Netherlands have returned to the domestic real estate department (Vastgoed Beheer en Diensten) for their real estate support. The accumulated knowledge of the buildings, and familiarity with business plans, as well as the formal and informal networks are elements of added value which outsiders cannot surpass. In addition, advertisements can be regularly found in which Philips real estate offers its services to outsiders.*

Knowledge of business and management processes is of especial value in departments operating in a decentralised setting. Convincing operating companies and national organisations to cooperate requires knowledge of the matters they have to face. This convincing act may also take place after mergers or major acquisitions. Awareness of the patterns and procedures in decision-making processes enables real estate departments to assist their clients to speed up those processes. To a large extent this aspect of knowledge is closely related to the presence of formal and informal networks. Having these networks is one of the basic elements in acquiring the knowledge.

The knowledge of business processes is especially important in those sectors in which real estate is an essential element in the interaction between the corporation and its clients. Awareness of the specific operating needs of companies related to that interaction is consequently a key element. Within all of the corporations analysed, the component knowledge appears to be of importance.

**Collection of scarce expertise**

Most real estate departments were founded to provide the assistance and specialised knowledge needed to manage expanding corporate real estate portfolios. The absence of real estate service providers forced corporations early in the 20th century to create a
collection of scarce expertise. Professionalisation of the real estate market ended the corporate monopoly. Specialist or scarce expertise is, however, still a competitive advantage. The availability of information and the formal and informal networks within a corporation provide a source of scarce expertise too.

Increasing geographical spread of corporations results in a need for information on more than just traditional real estate markets. While real estate departments in many corporations do possess scarce expertise on a single – often the domestic – market, internationalisation often results in the involvement of third parties to provide local expertise. In response to this need for support, real estate service providers are increasingly creating global networks. Outsiders can also provide simple technical or financial knowledge. The ability to transform mere data into management information, or the awareness of the need for up-to-date information, are components of scarce expertise that are more difficult for outsiders to provide. Scarce expertise displays a close relation with some other elements, such as the availability of information, formal and informal networks and knowledge of business and management processes.

*Philips is currently studying alternative strategies. Based on an internal comparison in 14 Western European countries in which Philips is operating, and an external benchmark study of a dozen other corporations, three distinct strategies and related organisational implementations were established. Making use of an international network of preferred suppliers, Philips aims to create a uniform, global approach of corporate real estate, resulting in a more commercial and strategic approach*.\(^2\)

**Risk sharing**

Risk sharing is one of the elements of added value that is least recognised. Risks can occur during all phases of a building's life cycle. Delays in construction, occupational health risks, and unexpected ending of lease contracts are elements related to risks in CREM. Controlling risks during the various phases of a building's life cycle requires professional principals, either in-house or external, who can monitor these risks and act if necessary.

Efforts related to risk sharing in managing a corporate real estate portfolio have been seldom recognised within the cases. Portfolio management is often difficult due to the geographical and functional diversity of both the business activities and of real estate. Within a few corporations, efforts have been made to involve outsiders in sharing risks with regard to the financing of corporate real estate. Establishing separate financial and legal entities provides corporations with the opportunity to share risks with regard to the income and capital value of the portfolio concerned.

*Founding an internal bank to provide operating companies with the necessary capital for investments can in fact also create a similar combination. AKZO Nobel set up an internal bank in 1998, enabling operating companies to borrow capital against lower than the commercial interest rates.*
Confidentiality and availability of information
Information is a key component in managing a corporation's real estate portfolio. The availability of up-to-date information on the technical and financial status of individual buildings or of the portfolio provides the means with which policy on this founded. Especially in decentralised and highly diverse corporations, a total overview of the portfolio is missing. While one of the operating companies might be in need of space, another operating company might have excess space. Internal sharing or coordination of information might be handy in solving these issues. The increasing size of a corporation's real estate portfolio makes it more difficult to control all the information of the entire portfolio. Within many corporations, information with regard to the real estate portfolio is only available at the local level. This is especially true for the industrial corporations. Availability of information is, for example, an important requirement for setting up a comparative benchmark study. Nevertheless, several initiatives for benchmark studies have foundered due to either lack of information or unwillingness to reveal information to competitors. Confidentiality of the information is only a relevant issue in a few corporations. The availability of information is most essential when drastic actions have to be taken, as during financial crises or when mergers and acquisitions are being made. In order to be able to act swiftly, actors often need information on the content and value of the corporate real estate portfolio.

Formal and informal networks
To be able to operate within a corporation and to be aware of the issues that are regarded as being important by the various stakeholders, real estate departments have to rely on formal and informal networks. The formal contacts of a department are to a large extent determined by the position of the department within the corporation. Informal networks are, however, often even more important. Often based on personal interests and acquaintances, informal contacts can be of great value for the involvement of real estate. Within several of the corporations studied, the activities of the formerly centralised CRE departments are to a large extent based on mediation between operating companies and external service providers. The mere presence of an internal department makes it easier for companies to get in contact with them. Furthermore, the physical proximity of the CRE department often makes contact easier. Informal contacts often facilitate communication. The element of formal and informal networks is often one of the most important competitive advantages of in-house departments over outsiders. In-house departments are not only able to contact people more directly but, more importantly, they know whom to contact. Besides internal corporate networks, external networks can also be valuable. Several of the corporations included in my research have been actively involved in informal mutually advantageous networks.

*ABUP, a coalition between the AKU – predecessor of AKZO Nobel – BPM (Bataafsche Petroleum Maatschappij) – a predecessor of Royal Dutch/Shell – Unilever, and Philips,*
was founded to discuss items varying from legislation to government politics and real estate. A similar pact was formed within the retail market. For years no shopping mall could be found without the presence of the ABC formula, the outcome of a joint operating pact of three family-run retail firms: Albert Heijn, Blokker and C&A.

The importance of formal and informal networks is also one of the main attractions of professional organisations such as IDRC and Nacore.

**Strategy formulation, anticipation and innovation**
In order to assist corporations and operating companies in their efforts to keep up with competitors, and even to stay ahead of them, staff and support departments have to be able to participate in strategy formulation, anticipation, and innovation. The ability to prepare the corporation for the future requires staff and support departments to be aware of the strategy to be fulfilled. Anticipation of future directions and events enables the corporation to respond more quickly. With regard to real estate, formulating and anticipating strategy can be displayed, for example, in research initiatives or long-term planning. An active policy on strategy formulation, anticipation, and innovation provides real estate departments with opportunities to assist the corporation and operating companies in keeping ahead of the competition. If the real estate department is able to anticipate the behaviour of the corporation or its operating companies, the actual implementation can be realised more quickly.

**Speed of actions and transactions**
The speed of actions and transactions, or rather the lack of speed, can be a bottleneck for corporate expansion. The time needed to handle real estate issues is often underestimated by operating companies. Decisions on international expansion or new production facilities tend to be taken without proper consideration of the real estate consequences. The ability to speed up expansion through a reduction of construction time or by the availability of good locations can be of vital importance.

Speed of actions and transactions is especially an important element of added value in the growth phase; be it general growth of the corporation or in a specific market. In their efforts to penetrate new markets many corporations want to be the first to enter a market – e.g. the Far East and the former Russian republics – or offer a particular product. In order to do so corporations have to acquire real estate to accommodate local staff and for production facilities. The limited availability of qualitative office and production facilities increases the difficulties for corporations when entering these markets. The availability and use of local service-providers and of international networks of global service providers offers opportunities for support.

Besides supporting corporate expansion, speed is also an important issue during mergers and acquisitions. Rapid actions in matters of both due diligence and relocation of activities can be of importance. Another aspect of speed in times of mergers is that a new corporate headquarters often has to be acquired or at least a number of former
headquarters departments have to merged and housed in one building. The swift occupation of a joint building – a joint symbol – is often of importance.

In 1991 the NMB Postbank merged with the insurance company Nationale-Nederlanden (NN). Immediately after the announcement of the merger, all three departments involved in real estate and accommodation of either NN or NMB Postbank worked together on creating a new corporate headquarters in Amsterdam, awaiting the new headquarters in the Atrium Twin Towers. The Facility Management Division (FB) of NMB Postbank, the Internal Services department of NN, and the real estate department of NN (NN Vastgoed) all participated in this project. NN Vastgoed was responsible for the project management and construction activities, while the FB took care of all facility management activities.13

Speed of actions and transactions is, however, an element of added value that can often be provided both in-house and by outsiders. In-house departments might, however, be able to operate more quickly due to advantages created in the other elements of added value, such as networks and knowledge of business and management processes.

Summary
Section 7.3 has focused on pinpointing the value added by corporate real estate management. In contrast with the traditional, passive role attributed to real estate departments, the above review of the cases displays numerous examples of the potential for adding value being recognised and – above all – utilised by an increasing number of corporations. Through implementing value adding products and services, CRE departments contribute to the transformation of real estate from a cost of doing business to a true corporate asset.

To benefit from the potential added value to be found in real estate, CRE departments have to be aware of the impact of the corporate setting in which they are positioned. Implementing value adding products and services in corporations characterised by an extremely decentralised organisation – lacking any professional entity with regard to CRE – is different from obtaining the added value in highly centralised corporations. For example, while increasing geographical diversity of business activities may interfere with efforts to create economies of scale, it might open up opportunities to establish alliances with global service providers working with local representatives. Ultimately the corporate setting in which the corporate real estate department operates determines the opportunities for the practical implementation of a synergistic approach to corporate real estate management. The impact of the corporate setting on the occurrence and implementation of the elements of added value is discussed in Section 7.4.
<table>
<thead>
<tr>
<th>Structure-related variables</th>
<th>Strategy-related variables</th>
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<tbody>
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<td>7 = Corporate attitude</td>
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<td>2 = Level of centralization</td>
<td>8 = Corporate strategy</td>
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<td>3 = Degree of concentration</td>
<td>9 = CAG strategy</td>
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<td>4 = Internal relationship</td>
<td>10 = Perception on synergy</td>
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<td>5 = Position of department</td>
<td>11 = Sector</td>
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<td>6 = Structure of CREM</td>
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**Table 7.4**

*Impact of corporate characteristics of the elements of added value*

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<td>Economies of scale in acquisition of products and services</td>
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7.4 Conclusions: relating added value and CREM

All of the eight cases analysed in this research have been reviewed in the previous section in order to pinpoint the elements of added value implemented in each of the cases. Section 7.3 related the nature of products and services of CREM to characteristics of the corporate setting. Finally, this section sets out to find out what corporate constraints are best suited for the implementation of the value adding elements. In order to explain this difference and to pinpoint other linkages between added value and corporate characteristics, a synthesis has been made of both categories. The results of the synthesis are described in Table 7.4. Each corporation analysed in this research can be described on the basis of corporate characteristics (see Table 4.5 and Chapter 6). While Table 7.3 provides an overview relating the cases to the nature of the value added for each corporation, Table 7.4 broadens the scope by relating added value to corporate characteristics. The linkages that emerge are depicted in Table 7.4 and provide insight into the relation between added value and the strategies and structure of corporations. If a section in the table depicts an impact, there exists a clear relation between the corporate characteristic and the element of added value. When the relation occurs in four or more of the cases, the link is regarded as being of significant importance; a relation in one to three of the cases is regarded as moderate. If there is no evidence at all the relation is referred to as non-existent. Table 7.4 not only displays a clear distinction between the degree to which various elements have been implemented, but also indicates distinct differences between the impact of various characteristics. Each of the corporate characteristics is addressed and an overview is given of the effects of different alternatives of the variable on the implementation of added value. Besides linking corporate characteristics to suitable value adding products, a similar review is made of the inter-relatedness between the distinct structure and strategy-related variables.

Orientation of corporation
The main distinction with regard to the orientation of the corporation is between those corporations that are market oriented and those that are product oriented. Corporations characterised by a market oriented structure, such as most of the services corporations, display a strong impact of alignment of use and high-quality services. In addition, a moderate impact can be distinguished with regard to formal and informal networks, confidentiality of information and strategy and anticipation. As indicated in Chapter 6, most of the international expansion of services corporations has been realised through acquisitions of existing corporations, often in different markets. The different pattern of growth, compared to industrial corporations – all characterised by a product-oriented structure – affects the occurrence and practical relevance of added value.

Level of centralisation
A second important characteristic is the level of centralisation. Within all the corporations studied, business units have to submit investment proposals to the
executive level within either the product division or to the board of directors. The main issue with regard to centralisation is whether or not a CRE department is involved in the decision-making processes, e.g. through providing advice on or authorisation of investment proposals. Within all the corporations analysed, CRE departments were, if present, actively involved in the decision-making process. Corporations in which an advisory role has been assigned to CREM display a strong affiliation with knowledge of management and business processes and scarce expertise than others do. Both elements of added value can be regarded as key ingredients in justifying the central position. A similar justification is also valid for the presence of strategy and anticipation and formal and informal networks. A certain level of centralisation – or preferable coordination – is apparently needed in order to obtain a certain degree of corporate synergy. Given the impact of the role of the CRE department in the decision-making process, the impact of the level of centralisation shows distinct similarities with other structure-related variables.

Degree of concentration
Similar to the impact of the orientation of the corporation, the degree of concentration of CRE activities shows a dominant preference for elements of added value aimed at the sharing of resources. The majority of the corporations are characterised by a dispersion of operational and tactical real estate activities to operating companies. Many of the corporations operate, however, an additional CRE department within national organisations or within their corporate centre. The rationale behind the concentration of activities is reflected in the internal relationship between the corporate centre and the operating companies, and in the position of the CRE department. The impact of the role of the corporate centre and the nature of the parental advantage is also depicted by the structure of CREM [see Table 7.5]. The most important finding with regard to structure is that, although perhaps self-evident, the mere existence of a CRE department within a corporation is a vital element in the provision of value adding products and services.

Position of department
As may be expected, the position of the CRE department is closely related to the element degree of concentration. In addition, the presence of a CRE department as part of a national supporting organisation increases the impact of both strategy and anticipation and speed of actions and transactions. The scale of national activities, often the main rationale behind a market-oriented structure, opens up opportunities to allocate time and efforts to strategy and anticipation. The close relation between supporting and business activities also intensifies the relation and urges the CRE department to focus on speed of actions and transactions.

Corporate attitude
The corporate attitude of most of the corporations I have studied can be described as one of strategic and financial control; strategic planning is, however, implemented in only a
few corporations. Unsurprisingly, the corporations that do display strategy and anticipation with regard to real estate. Mostly, affiliation with strategy and anticipation can be found within the services sector. Corporations favouring strategic planning also tend to value the presence of an in-house collection of scarce expertise. Scarce expertise is also an element valued by corporations characterised by a coordinated approach to managing their corporate real estate portfolio and a strong focus on the influence of linkage and internal alignment of activities.

Corporate strategy
Although the expectancy of the impact of corporate strategy was high, the practical examples in the case studies indicate only a moderate to no impact on the presence of elements of added value. The relations seen in Table 7.5 are primarily explained by the sector in which the corporation is operating and the orientation of the corporate structure. A similar pattern can also be distinguished with regard to CRE strategy. The nature of both corporate and CRE strategy show dependence between the sector in which the corporation is operating and the nature of both kinds of strategies.

Perception on synergy
Although perceptions of synergy should be an important corporate characteristic, given the rationale behind the theoretical framework of this thesis, there is hardly any evidence of an impact on the nature of added value implemented. One of the few exceptions is the match between a corporate perception on horizontal synergy and the presence of efforts relating to alignment in use and management of real estate and real estate services.

Sector
The distinction between services and industrial corporations has been indicated many times as a key characteristic. Direct comparison shows that services corporations outperform industrial corporations in almost every element of added value. Services corporations show in general, more than industrial corporations, a greater coordination of real estate activities, both in products and services and in advising on real estate investments and decisions (level of centralisation). Services corporations also tend to favour formal networks, and strategy and anticipation. The only element in which industrial corporations outclass services corporations is in obtaining economies of scale. The difference between services and industrial corporations is the result of different patterns of growth. Services corporations, more than industrial, corporations have grown through acquisition of existing corporations in new markets. As described in Chapter 6, many of these newly acquired subsidiaries kept their independent status within their new corporate setting. While industrial corporations are generally characterised by multiple (independent) operating companies in one country, corporations in the services sector mostly operate on a one-by-one setting. Within industrial corporations, operating companies are generally supported by a national or regional organisation. As a result of the one-by-one basis, operating companies in the
services sector are often synonymous with the national or regional activities. In line with the above distinction services corporations express an affection for horizontal synergy, while industrial corporations show more affiliation with implementing vertical synergy.

**Changes/Events**

In this research a number of important changes/events have been encountered. The occurrence of a crisis was, however, the only event that had an impact on CREM. Crises trigger interest in the capital allocated to corporate real estate. Then both economies of scale and formal and informal networks receive increased attention. Initiatives to obtain economies of scale have proven to be an important element in solving crises. Both the Centurion project and the OCOO programme are two examples within Philips Electronics that display the possible contribution. Formal and informal networks are, as such, an important ingredient in implementing economies of scale. Given the fact that obtaining economies of scale may conflict with the decentralised organisations, formal and informal networks are needed to realise the initiatives.

**Summary**

There is a clear relation between the structure of a corporation, the position of the CRE department – as a product of the corporate structure – and the presence of elements of added value. Coordination of real estate activities, either through a corporate centre or national organisations, appears to be a clear prerequisite for obtaining added value. Corporations characterised by highly diversified activities often have more difficulty in enforcing corporate-wide coordination.

The elaboration on the elements of added value displays a close relation between several of the characteristics discussed. Parallel to the dependencies, depicted in Table 7.4, the above overview displays cohesion between the occurrence of value adding products and services. A distinction emerges between elements focusing on the sharing of resources and elements focusing on transferring capabilities. Table 7.5 depicts the clustering of the ten elements of added value. Resource sharing focuses on the use and management of buildings, land and services, while ‘Capabilities transfer’ focuses on the availability of information and expertise within the corporation.

Reviewing the corporate cases, resource sharing appears to fit in market-oriented organisations, supported by national organisations or corporate centres. Attempts to coordinate both real estate and real estate activities are mainly to be found within corporations in the services sector. Although the recognition of capability transfer is more evenly spread, industrial corporations especially value these elements. The more diverse activities often make it difficult to align resources, however. The transfer of capabilities is more suitable in industrial corporations because it enables a dispersed group of CRE departments to operate more effectively.

The above reasoning shows – in line with Tallman et al., who state that a balance between resources, strategy, and environment drives performance results – that there
is a relation between the corporate setting and the nature of the added value obtained through managing corporate resources, including those of real estate. Real estate departments positioned within the corporate centre, national organisations, or large operating companies play an important role in achieving coordination. None of the corporations analysed display a global, corporate-wide alignment of real estate activities. This limitation is caused by the obstacles caused by the limited span of control of the departments. The scope for coordination is, unfortunately, often limited to the geographical and/or functional scope of the organisation in which the CRE department is positioned.

One thing is certain, a certain corporate infrastructure has to in place to obtain added value from managing a corporate real estate portfolio. The presence of an internal real estate department, almost regardless of the position within the organisational structure, has a positive effect on the occurrence of value adding elements. Although the corporate cases also show that most of the elements of added value can be obtained in multiple settings, the analysis also indicate that the occurrence is more likely in some settings than others. Corporations without a formal supporting unit enjoy little added value from their real estate assets and activities.
7.5

Notes

1 Lede, C.Van (1997), Akzo Nobel’s mission for 1997: Re-launch growth. The 1997 New Year’s speech by Cees van Lede, Chairman of the Board of Management.


7 The term stakeholders refers to everyone who directly or indirectly receives the benefits or sustains the costs that result from a firm’s actions [Hax, 1990, p. 11; in De wit & Meyer, 1996, p. 11]; Stakeholders are those groups on which an organisation depends [Moss Kanter, 1989, p. 127].


14 The review has focused on the presence of value adding elements with regard to real estate. It is possible that the elements can also be applied to other disciplines.

8.1  

Reflections on managing a corporation's real estate portfolio

In the last decade the management of a corporation's real estate portfolio has experienced growing attention from both a professional and a scientific side point of view. While up to the 1980s the real estate profession comprised primarily of engineers, architects and investors, thereafter a new breed of professionals entered the market. The majority of the publicity was, however, based on experiences obtained in North America. In addition, the publicity can be characterised by a focus on surveys, finance and alternative workplace strategies. The impact of the corporate setting in which the real estate departments have to operate was often lacking. In this thesis my aim has been to identify and describe the interaction between the role and position of real estate departments and the structure and strategies of their corporations.

In September 1996, when I started on this research, I was aware that the subject, corporate real estate management in multinational corporations, was a topic under review and discussion within several of the selected corporations. The expected dynamics within corporations was one of the prime arguments for selecting a case study approach as the research strategy. The degree of the dynamics was in some cases staggering. Within the last three years departments have been completely transformed, and there have been numerous initiatives with regard to real estate finance and the use of alternative workplace strategies. Besides the mere changes with regard to real estate, corporations generally have had to cope with drastic changes such as take-overs, mergers, divestments and financial setbacks.

The dynamics encountered within corporations selected as cases affected the process of gathering information as well. In order to keep the reasoning, findings and examples up to date, information gathering continued almost to the end of the writing process in this research. Besides the difficulties caused by the dynamics of the corporate setting the data collection was also complex due to the nature of the topic. While I could built on existing contacts with real estate managers within most of the corporations finding contacts in the remaining corporations and gathering data on the evolution of the
departments proved to be difficult. In some cases the corporate archives of corporations provided information enabling me to describe the evolution of their approach to real estate management. Besides organisational diagrams indicating the existence of real estate departments, often archives contained reports or letters describing the role of the departments. It was also interesting to discover the close relations between various corporations. While corporations are often unaware of the lessons learnt by other organisations, there are several links between the corporations, usually based on previous working experiences of employees and on informal networks. This final chapter is devoted to reflections on my research, and on transforming these reflections into lessons to be learned (Section 8.2). Whereas my research has focused on describing and analysing the evolution and current status of corporate real estate management in multinational corporations, in Section 8.3 I express some personal thoughts on current issues and the future of the discipline.

8.2 Lessons to be learned

8.2.1 Introduction

One of the main objectives of this thesis was to provide answers to questions about the role, position and performance of real estate departments in modern corporations. When I began my research I set out to confront corporations with opportunities that had been missed due to a lack of coordination of their real estate activities. Four stakeholders can be distinguished for whom the results of my research could have an impact: board of directors, corporate real estate managers, service providers and academics [Figure 8.1]. Each of these stakeholders is characterised by different interests in and perspectives on CREM.

8.2.2 Lessons for Board of Directors

Although the processes of back-to-core-business and decentralisation appear to justify the dismantling and outsourcing of many staff and supporting functions, I believe that letting go all elements of control is somewhat overdone. The radical shift from the traditional focus on control towards that of autonomy should be transformed into corporate alignment. Corporate alignment does not necessarily mean returning to centralising all decisions within a corporate centre, but rather a corporate effort to coordinate activities. In order to benefit from their internal resources and capabilities, corporations should go beyond the level of sheer operational efficiency.

In many corporations, although a lot of capital is allocated in real estate, there is no or only a limited strategy with regard to managing their corporate real estate portfolio. Although the retort “We are not in the real estate business” is true, this does not
necessarily mean that real estate cannot be used to support current and future business activities.

Enabling economies of scale in the acquisition of products and services, or alignment of use of buildings, are examples of benefits for the corporation. To achieve these benefits corporations have to possess a certain level of in-house knowledge. Besides the advantages to be obtained from sharing resources and capabilities, corporate real estate can provide critical support to corporate expansion. In order to obtain these advantages, corporations should establish corporate knowledge centres to coordinate current real estate activities and provide support and pro-actively anticipate in the expansion of business activities. These centres could act as nodes in a network between the corporation and strategic alliances. The various examples of coordinating efforts both in the industrial and services corporations are a sign of growing interest in a more professional management of corporate real estate.

Within many corporations a substantial amount of capital is invested in real estate. In a number of them this 'hidden' asset has proved to be of enormous help in times of financial crisis. If, as some people expect, the global economy might end in economic recession, real estate might once again be seen as a nest egg for hard times. In better times, moreover, these investments could also be a helpful tool in anticipating future business expansions.
Many of the corporations analysed have excess capital due, for example, to divestments. Rather than returning that capital to shareholders or depositing it in bank accounts, corporations should create competitive advantages through anticipating their future need for buildings or land, facilitating expansion of business activities. In those cases in which locations are an essential element in the selling or distribution processes of a corporation, it might be wise to pro-actively acquire real estate, thus avoiding future bottlenecks. Corporate real estate can create a competitive advantage through enabling speedy implementation of corporate strategies, such as entering new markets or unleashing capital invested in real estate.

Capturing the value of real estate created as a by-product of core business activities can contribute to corporate performance. Corporations can benefit directly or indirectly through the development of real estate. The increase in the value of land or properties due to the presence of the corporations can result in extra income for the corporation or, perhaps even better even partially control the nature of the corporations to be accommodated in the vicinity.

Besides capturing the value of real estate an additional contribution to corporate performance can be achieved through financial strategies with regard to real estate. While corporations once had to own all their properties, current financial alternatives such as sale/leaseback, or Real Estate Investment Trusts (REIT’s) open up opportunities to 'shorten' the corporate balance sheet, thus contributing to the overall corporate performance. Sales, sale/leaseback’s, and REIT’s can unlock millions of dollars in capital that can be reinvested in a corporation’s core businesses.

Effectuating the competitive advantages that can be created through professional management of the corporate real estate portfolio requires a certain level of in-house knowledge. Furthermore to benefit from this added value, corporate alignment and coordination is necessary.

8.2.3

Lessons for corporate real estate managers

Changes in the corporate setting have had an enormous effect on corporate real estate departments. Departments have often undergone a drastic staff reduction due to the corporate strategy of outsourcing supporting disciplines. As a result of transformations in the structure and strategies during the corporate life cycle, different skills and capabilities of staff and supporting departments are required. In the era of continuous corporate growth, and the lack of a professional real estate market, corporations were in need of construction and acquisition skills. Since then the role of corporate real estate management has been transformed more into one of anticipation and mediation. These new roles have not only been stimulated by a transformation in the nature of activities – from operational coordination to strategic support – but also by the increasing
alignment that has occurred between the various disciplines supporting the corporate infrastructure.

The globalisation of corporations has increased the involvement of service providers. It is hard – not to say impossible – for a corporation to maintain up-to-date knowledge of real estate markets in numerous countries and regions all over the world. Aligning in-house activities with global networks of service providers can provide a solution to the need for information and services. The professionalisation of the real estate market also provides an opportunity to measure the 'performance' of in-house departments and compare them to their 'commercial' peers.

The new function of staff and support departments is to achieve a critical mass within the firm in order to control and mediate between a web of internal and external sources of real estate knowledge and activities. Bundling of real estate activities in a corporate centre provides real estate managers with the opportunity to profit from economies of scale both in the acquisition of products and services and in the in-house use of resources and capabilities. 'Guidelines' or sharing corporate best practices can, in addition, be an important element in managing a corporation's real estate portfolio. However, unless business processes can operate without hinder caused by real estate properties, there will hardly be any commitment towards supporting a corporate real estate management function. Once basic needs are satisfied, then it is time to expand the scope of activities to the level of 'strategic' activities. Although this rather simple statement is certainly true, real estate managers cannot sit back and wait for work. Awareness of the issues the corporation and its business-units are currently facing is essential. Real estate issues are generally not an issue just for the real estate department but are perhaps even more issues for operating companies and the corporate centre. The absence of new accommodation or locations can slow down new developments. Real estate departments should ask themselves: "Why should operating companies come to me?" instead of merely assuming that there is no alternative. Awareness of the value real estate departments can add but also of the value they cannot add is essential.

8.2.4 Lessons for other parties involved in real estate

Up to the 1960s many Dutch multinational corporations were 'personally' involved in the activities related to managing their real estate portfolios. Since the 1980s corporations have been eager to outsource supporting activities, including real estate activities. While corporations continue to be interested in outsourcing, property management firms in the Netherlands appear to be primarily focused at providing services to real estate investors rather than corporate end-users. The current involvement of service providers is often ad-hoc and generally limited to operational activities.
Increasingly, corporations are looking for opportunities to reduce and unleash capital locked up in fixed assets. Among the cases analysed in this research, several examples are available of leased corporate headquarters and sale-and-lease back transactions. In the current real estate market, where there is a lack of suitable office and retail space, corporate real estate might be an excellent investment. The intention of many investors and developers to develop buildings suitable for multiple users conflicts with any desire for expressive architecture. Indeed, the increasing proportion of rental/lease buildings in corporate real estate portfolios makes it difficult to create architecturally expressive buildings for the commercial real estate market.

Discussions between architects, real estate investors and users of real estate often seem to end in discussions about costs. The physical image of a building may, however, bring benefits through advertising and attracting attention to the firm's services and goods. When buildings reflect the purpose of the business and encourage important work relationships, they can become significant elements in expressing a corporate strategy. Although corporations are often accused of a lack of cultural and social commitment, I believe all parties involved in the design and construction process have a certain responsibility to achieve the final goal. In some instances, corporations perhaps need some convincing.

In order to be able to be prepared to provide qualitative products, 'outsiders' have to be aware of the role of the real estate department within the corporation and also aware of the broader issues corporations are faced with. Corporations are looking for a single or a limited number of real estate service providers to assist them on a global scale; often complemented with local providers. Service providers have to realise and act according to this threat/opportunity.

8.2.5

Lessons for academics

While academic attention for managing the corporate real estate portfolio was high in the 1980s and beginning of the 1990s, currently the amount of research being done is decreasing. One of the simplest explanations might be that all the work needed has been done. Yes, perhaps the simple work is done. The surveys described the current status of departments involved in managing a corporation's real estate portfolio. However, insight into the arguments underlying the current status, and, consequently, the knowledge to help others from making similar 'mistakes', is lacking. In addition, most of the surveys available are likely to be outdated as a result of the changes in the last couple of years.

Since the role of staff and supporting departments, including corporate real estate departments, is largely dependent on the position of the department in the firm, the
relationship between the two is interesting. So far, most studies in real estate management have focused on corporate real estate management as a separate discipline, regarding the corporate setting as a mere black box. The impact of transitions and transformations in the corporate structure and strategies can, as described in this research, no longer be regarded as a mere contingency. An updated survey, based on a broader view of the role of corporate real estate management, might be an approach to generalise the trends described in Chapter 6 and Chapter 7.

Another limitation to the current research on real estate is the fact that what real estate research is available has primarily focused on real estate finance and economics – serving the interests of investors’ portfolios. Managing a real estate portfolio in a corporate setting, in which real estate is not regarded as core business, is different. Instead of the return on real estate investment, being the prime goal, they are often overshadowed by returns on core activities.

Most of the discussions at CRE conferences, however, seem to focus at the question 'How to address the needs of the Board of Directors?' In their quest for contributing to the bottom line of the corporation CRE departments are generally hardly able to compete with the actual operating companies. Whereas establishing a CRE department often needs the formal approval of the Board of Directors, the survival of the department is dependent on the level of satisfaction of the actual users.

In several instances in this thesis, references have been made to the evolution of other disciplines. To a certain degree, all disciplines evolve in time to become more professional in their approach. In the evolution of the real estate profession, several parallels can be distinguished with the evolution of other disciplines, such as human resources and information technology. As I have indicated to a certain extent the opportunities for implementing management research are huge. Moreover, many of the issues raised in the management literature are to a certain extent applicable in managing a corporation's real estate portfolio too.

In the last couple of years increasing attention is being paid at the integration of CRE and other disciplines involved managing the corporate infrastructure. The increasing inter-relatedness between disciplines requires more cooperation between supporting and staff functions and stimulates bundling of activities. In line with the changing role of the real estate function, a renewed focus is needed on the measurement of the performance of corporate real estate management, and staff and supporting departments in general. The overview of new thinking on the added value of CREM as described in Chapter 7 is a start towards a more balanced approach to managing corporate real estate.

Although pinpointing differences between North American and corporations of other nations was not one of the main objectives of this thesis, several can be encountered in
the eight Dutch case studies. While Nourse's\textsuperscript{3} overview of the impact of the corporate
life cycle in North American corporations included a rise of the CREM to the top of the
corporation, in most of the Dutch cases real estate management remains in a
supporting role. Although in some cases real estate departments report or advise the
Board of Directors, none of the corporations studied has a department at the level of the
Board of Directors. Possible explanations for the differences are the more centralised
organisation of North American corporations and their higher concentration of
domestic business operations.

Although all of the corporations analysed in this research are based in the Netherlands,
all of them are truly international corporations. The degree to which the corporations
are ‘Dutch’ is consequently questionable. Royal Dutch/Shell and Unilever are bi-national
and operate corporate headquarters both in the United Kingdom and the Netherlands.
The operating companies of Royal Ahold in the United States generated approximately
55 percent of Ahold’s world-wide sales and 63 percent of operating results in 1998\textsuperscript{4}.
Almost every one of the corporations could relocate its corporate headquarters outside
the Netherlands without disrupting its business activities. Given the international
scope of the cases I believe that the findings of this research are generally applicable.

8.3 Current issues and future developments

As I was starting my research in 1996, the topic of corporate real estate management had
just started to gain interest in the Netherlands. In addition to increasing attention paid
to the changing demands and opportunities for managing a corporate real estate
portfolio in journals, at conferences and in education, many Dutch corporations began
to reconsider the traditional role and position of their real estate departments.
Although Chapter 5 provided a brief 'backgrounder' on each of the cases and both
Chapters 6 and 7 also address current issues, none of the preceding chapters have
presented an overview of the current status of and issues concerning CREM. In addition
to the mere identification of current issues, this final section also offers me the
opportunity of extending some of the trends observed into expectations with regard to
future developments.

Within most of the corporations I analysed, real estate departments are positioned
within the structure of national supporting organisations. Operational responsibilities
with regard to real estate are delegated to operating companies. The role of real estate
departments is generally restricted to providing advice and checking investment
proposals. Real estate departments in services corporations are, in addition, often
involved in project development and management. As a result of the corporate
demeanour towards outsourcing supporting activities, corporations are increasingly
making use of service providers. In response to corporate desires to outsource
supporting activities to a limited number of 'partners', service providers are
increasingly transforming their organisations – through mergers, acquisitions and alliances – to create a global network.

Similar to the reduced urge to control all real estate activities, and as a result of increasing attention being paid to shareholder value, corporations are looking for financial and fiscal opportunities to shorten their balance sheet and improve revenue/expense ratio's. As there is often little necessity to own buildings, corporations are looking for alternative means of financing their real estate while preferably retaining a certain degree of control and limiting risks. Some of the first companies to adopt new approaches towards ownership were Royal Ahold, Vendex International and Unilever. Another example of the changed corporate approach to real estate is the relocation of the international headquarters of Philips Electronics, moving to a multi-tenant building in Amsterdam.

In the Harvard Business Review of April 1999, John Haggle and Marc Singer described a complete transformation of today's corporations into dinosaurs. Haggle and Singer describe how corporations are really engaged in three kinds of businesses. One business attracts customers, another develops products and a third oversees operations. Although organisationally intertwined, these businesses have conflicting characteristics. Each has different demands with regard to scope, speed and scale. Historically they have been bundled together because the interaction costs – the friction – incurred by separating them were too high. Haggle and Singer predict traditional businesses will unbundle and then rebundle into either large infrastructure and customer-relationship businesses or small, nimble product innovation companies.

Although I disagree with Hagel and Singer's radical unbundling of the corporation, the nineties were a true turning point in the corporate perspective on supporting activities. While corporations outsourced large portions of their supporting activities, each and every one of them is faced with an urge to extract a certain degree of synergy from corporate activities. Most of today's real estate activities can, however, be characterised by a decentralised and deconcentrated organisation of facility and project management activities based around operating companies often supported by national organisations. Enforcing synergy in corporate real estate is only rarely encountered.

The objective of CREM departments is no longer to dictate a corporate mandate, but to provide operating companies with added value over an above competitors. Merely outsourcing activities on the basis of achieving operational effectiveness is no longer regarded as being an acceptable strategy. Just lowering real estate costs may reduce the competitive business position: pennies per square foot may be saved but dollars in opportunities lost. A more progressive approach is to create effective organisations through aligning infrastructure-related activities so as to unleash on enabling synergies. In order to create a corporate resource leverage — creating skills and new business opportunities — one has to rise above the level of business-units.
The main role of a corporate knowledge centre with regard to corporate real estate will increasingly be the external coordination of alliances with service providers and the internal alignment of real estate resources and capabilities. Operating companies and the corporation in general should be able to make a deliberate choice between using in-house departments or external service providers on the basis of the best service delivered. Corporate real estate departments should plan to capture the real estate value created as a by-product of core business. For real estate, a corporate knowledge centre – balancing the demand for synergy and the desire for autonomy – should, in order to be able to operate effectively, have the commitment of the operating companies.

In the last couple of years several initiatives have been taken to coordinate activities on a regional scale, e.g. Europe, the Americas. The tendency towards a global or regional coordination, regrouping of geographical organisations and of real estate will increase in the future. Regional clustering will be complemented by global coordination. This does not necessarily mean that all activities will again be concentrated at or near the corporate headquarters, but that related activities will at least be coordinated on a global or regional scale. Alignment of activities can either be effectuated through geographical or functional clustering of activities. Geographical clustering, on the other hand, is based on economies of scale created through regional or local alignment of activities, such as alignment in the use of resources and capabilities, or aligning corporate real estate activities with purchasing activities thus focusing on optimising existing activities. Functional clustering refers to the organisational bundling of infrastructure-related activities in a resource or service division.

The clustering of infrastructure-related – human resource management, information technology and corporate real estate – activities in an infrastructure, resource or service division can currently be seen in several of the corporations. For historic and evolutionary reasons, closely related activities are spread over the corporate organisations. While departments were, for example, initially founded to support organisations dominated by domestic activities and positioned in the organisational diagram accordingly, the geographical spread of the corporate activities has changed dramatically over time. Although the importance of the organogram is questioned by many, the effects of a particular position can be noticed within several corporations. Corporations may attest to being learning and flexible organisations; reality can be different. Creating ‘guidelines based on best-practices’ might prove to be a handy addition to current, often soloist activities.

Besides transitions within the corporate setting the role and position of CREM is also influenced by the effects of technological innovations and economic developments. What effect will the Internet have for corporations maintaining retail or banking outlets? If E-commerce continues to grow the role of branches is likely to change. New patterns of product and service delivery, both due to information technology and new unbundling of logistics, could have radical effects on the usefulness of today’s corporate
real estate portfolios. According to a Booz Allen & Hamilton study of Internet Banking, the number of households using internet banking was 0.1 million in 1996 but it is projected to rise to over 16 million by the end of the year 2000 in the US alone. Merrill-lynch estimates an annual growth of E-commerce of about 35 to 75 percent. Although they state that real estate investors should not panic, they do express the opinion that growth and return on investment in retail markets will probably affected. It is, however, hard to predict what the effects of E-commerce will be. In contrary to the above expectancies of the growth of E-commerce research by McKinsey shows that in most countries, about 80 to 90 percent of the current branch system in the banking industry will still exist by 2010.

For some of the corporations studied huge effects are expected in the nature of the delivery process to their customers. The possible effects of increasing E-commerce can effect the raison d’être of the branch networks of the financial and retail corporations. Although branch networks will probably remain in place for a long time, the proportion of products bought through traditional sales channels will probably decrease in time as compared to electronic channels.

A sudden confluence of international financial events and capital market volatility has raised urgent questions about the outlook for investment in real estate. The global economy has been shaken by economic recession in Japan and Southeast Asia, Russian devaluation and default, bankrupt hedge funds, and growing concerns for corporate earnings and future business investments. Within the United States asset-price inflation might even pose a bigger and more imminent threat to the global economy. America’s stockmarket has gained another 15 percent this year, taking its total rise over the past two years to a massive 65 percent. This is not the only symptom of a bubble: America’s commercial property market is starting to become ‘frothy’, and mergers are running at record levels. If the global economy should really be confronted with the ‘D-word’, corporations will probably, just as in the 1980s, focus on cost reductions. Such an event will put all efforts on the integration of real estate related disciplines in another perspective.

The prime aim of staff and supporting departments, including real estate will, however, always remain to support the core activities of a corporation. A second important aim will remain to support corporate growth, either through mergers and acquisitions or during autonomous growth. In the process of mergers and acquisitions, real estate departments can be of value through their involvement in due diligence activities and in capturing the real value of real estate.

During autonomous growth of a corporation, a corporate real estate department can prove of value by anticipating the future needs of the operating companies, thus providing them a head start. Early acquisition or options on land and properties can turn out to be an important tool in speeding up new developments. Especially in mature markets, obtaining new locations can be an essential element for expansions.
One of the most important questions to be asked as a consequence of these developments is what is the reason for the existence of a corporation; why should all the independent business activities stick together? If there is no added value in joining business-units together into one corporation, the rationale behind the corporate existence is lacking. That has to do with the ability to integrate disparate kinds of knowledge. You create value when you apply fundamentally new knowledge to old problems, and in the process relocate the foundations of existing knowledge. The second way of creating value comes from synthesising discrete kinds of existing knowledge. Instead of radically outsourcing real estate activities, as some of the corporations have been doing in the last decade, corporations should balance the pro’s and con’s of outsourcing. Each of the ten elements of added value addressed in Chapter 7 can in fact be classified as an argument in favour of establishing or maintaining in-house capabilities with regard to CREM. The relevance of staff and supporting departments has been questioned on the basis of ‘lack of competitiveness’ and ‘ivory tower’. Implementation of the elements of added value, however, requires a review of the old-fashioned black-and-white perspective on staff and supporting departments.

In the ‘Age of Unreason’ Charles Handy distinguishes between three kinds of employees: the core, the contractual fridge, and the flexible labour force. A similar distinction can also be made with regard to corporate real estate management. A large proportion of real estate activities can be provided at any time from multiple providers and proves to be of no critical value to the performance of the corporation. A second category of activities can play a critical role in business processes but need not necessarily be controlled by the corporation itself. Strategic alliances with outside service providers may do the job just as well. The third, last, and most important category are core activities: resources and capabilities that are critical to the performance of a corporation. In addition, availability of scarce expertise and benefiting from resource sharing can provide a competitive advantage over competitors. Control of these activities and the availability of the necessary skills are therefore important. In the past, many of today’s non-core activities were essential to corporate expansion. The complete absence of alternatives forced corporations to control many of their real estate activities. Today’s added value is, more than in the past, based on balancing both the needs of the business and management processes with regard to accommodation and benefiting from opportunities to create corporate synergy.

The next couple of years will eventually show whether or not my view of the future of the corporate real estate management has been of any value. One thing is certain, many of the now, current settings I have described in this thesis will have changed. Almost every corporation analysed in this research is changing its corporate real estate function. While some corporations are in the process of reinstating corporate-wide coordination of resources and capabilities, others are taking the next step towards the integration and alignment of various supporting disciplines. As I have stressed throughout this thesis, the effects of these transitions will have consequences for the
role and position of the real estate department. Managing a corporation's real estate portfolio in the next millennium will turn out to be a challenge for all stakeholders.

Neglecting the strategic and financial value locked up in real estate results in corporations missing competitive advantage. Alignment and coordination of internal resources and capabilities to improve the corporate performance can and should no longer be regarded as an option but as a necessity; it's the entry ticket to the next millennium's competitive market.

8.4

Notes


**Summary**

**Introduction**

Although activities of corporate real estate management (CREM) date back to the beginning of industrial and commercial activities, from both an academic and a professional point of view CREM is still in its childhood. Up to now the majority of academic attention for buildings has been from either an architectural or economic point of view. Starting in the early 1980s, attention for managing corporate real estate peaked in the early nineties as a result of the publication of the first of a series of IDRC reports 'Strategic management of the Fifth Resource'. Although CREM has gained increasing attention in the last decade, the majority of research has been limited to surveys, prescriptive articles, or articles on valuation. Besides being primarily based on North American success stories, the majority of research efforts have had a strong financial orientation and have viewed real estate mainly from an investors point of view. The profound impact of the corporate setting on the corporate attitude towards real estate and on the organisational implementation of CREM has, however, hardly been addressed in the real estate literature.

Transitions in the corporate attitude towards internal service providers, triggered by changing relations between corporate centres and operating companies, and by a professionalisation of the real estate market, has changed the traditional role and position of staff departments. Instead of acting as monopolists, departments have to position themselves against outside commercial service providers. Only decades ago multinational corporations, although not professionally active in the real estate industry, maintained large engineering and architectural departments, in some cases employing more than thousand employees. Currently departments are urged to identify their competitive advantage, and to provide services/products that deliver added value.

The impact of the changes in the corporate setting, the absence of research that focuses on the impact of corporate changes on the role and position of the CREM department,
and the increasing practical relevance of the issue have been the most important triggers for starting this PhD research. The objectives of this research are:

1. To acquire insight into the evolution of corporate real estate management in relation to the transformation and transitions in the strategy and structure of multinational corporations.
2. To pinpoint the added value of corporate real estate management and identify the impact of corporate characteristics on the nature of the added value.

To analyse the relationship between characteristics of the multinational corporation and the role and position of the departments involved in managing that corporation’s real estate portfolio both in the past and currently, a limited number of cases have been reviewed in-depth. All the selected corporations were founded around the beginning of the 20th century and have evolved in time to become corporations listed in the Fortune Global 500. Each corporation has faced major mergers, acquisitions or extensive reorganisations, and each obtains at least 30% of their revenue outside their home country. Multinational corporations were chosen instead of domestic corporations because of the impact of geographical spread and product diversity on their business activities. Based on material available in corporate archives, interviews with in-house experts, and publicly available information, an analysis has been made of each of the corporate case studies.

The research setting

Chapters 2 and 3 of this thesis provide an overview of both of the arenas in which this research is positioned. The first of these is the arena of corporate setting. Early on the size and scale of corporate activities were limited to a single product and/or market; in most cases the corporations were even confined to their country of origin. Commensurate with the limited size and scale of business activities, the organisation of these firms was then characterised by a flat, centralised structure. The strategy of most firms was focused on survival and on expanding activities. The relatively stable environment then made few demands on the structure of the organisation. In time corporations evolved from functional, centralised organisations – mainly active within their domestic constraints – to decentralised, product or market-oriented corporations characterised by a great product and geographical diversity of business activities. Parallel to the transitions in the corporate setting, the role of staff and supporting departments changed as well. The potential conflict of interest between synergy and autonomy, and control and initiative, determines the relationship between corporate headquarters and business units. Central staff and supporting departments are in the centre of this discussion.
The real estate arena is in fact the second 'playing field' of this thesis. Chapter 3 provides a historic overview of industrial and commercial real estate and real estate management. Up to the 19th century real estate was either merely used to accommodate people and their activities or to express the wealth of those who commissioned the buildings. The rapid growth of industrial and commercial activities in the beginning of the 20th century and the consequent need for buildings resulted in increasing amount of capital being allocated to real estate. While accommodating early industrial activities was originally the responsibility of the owner of the corporation, in the beginning of the 20th century corporations started to establish staff and supporting departments for managing the corporation's real estate.

Long after World War II, the majority of the corporate real estate activities was still controlled from the corporation's home country, and was mainly focused on managing the constant need for additional accommodation. Continuous corporate growth and the increasing geographical spread of the business activities after World War II resulted in increasing product and geographical diversity of the portfolio. Together with this structural turn-around, corporations started to decentralise responsibilities – including those related to real estate – from corporate headquarters and central staff departments to national organisations and operating companies. The professionalisation of the Dutch real estate market at the end of the 1960s ended the necessity of corporations to control all real estate assets and activities.

Rising costs of accommodation as a result of the 1973 oil crises, the introduction of the computer and information technology in business processes, and globalisation of business activities and consumer markets resulted in increased managerial attention for real estate and real estate services. The corporate recession in the early 1980's resulted in further pressure on staff and support departments, such as those in real estate management. Paralysed by such trends as back-to-core business, downsizing, lean production, outsourcing, and right-sizing, corporations laid off thousands of employees resulting in a surplus of office and production space. The rising vacancies and the consequent decline of market rents resulted in a decrease of both rental incomes and rate of return on the real estate portfolio.

In view of changes in the corporate environment, real estate has to be managed, just like any other corporate staff and resources. Real estate is to be managed as a corporation's fifth strategic asset, besides employees, capital, technology and information. Instead of focusing on maximising wealth in real estate investments or simply concentrating on the technical state of real estate properties, the corporate real estate manager's opportunities to maximise return on investment are controlled by, and must conform to, the business of the corporation. Thus the role of CREM shifted towards a focus on obtaining maximum added value for the business. Changing perspectives on corporate real estate – balancing between general management, facility management, asset management and cost control – affect the role and position of the departments within a corporate setting.
Towards a research framework

Given the setting of my research, one of the main elements required in establishing a theoretical background is the discipline of strategic management. In the early of the eighties the majority of researchers in management studies were focused on the industry analysis framework put forward by Michael Porter and Henry Mintzberg. Strategic management research focused on the structure within those industries within which a firm operates to explain heterogeneity in firm performance. By the end of the 1980s the focus of interest in explaining competitive advantage had shifted towards the internal aspects of the corporation. Competitive advantage was seen as depending less upon corporate choices in market positioning and more upon the exploitation of unique internal resources and capabilities. Faced with corporate strivings to restrict its activities to core business, functional departments such as corporate real estate management have been urged to justify their in-house presence.

The resource-based view of the firm focuses on the resources and capabilities of a firm as its primary mode of analysis. Although real estate is often not explicitly incorporated in the various overviews of corporate resources and capabilities, it is undeniably one of the physical resources of a corporation. In line with the resource-based view, the hypotheses underlying this thesis hold that management of corporate real estate can contribute added value to the bottom line of a corporation. One of the concepts underlying the resource-based view is synergy. The synergy concept stresses that advantages are created when economics of scale and speed are combined with administrative co-ordination. Synergy focuses on co-ordination of existing structures and on how managers can optimise interrelationships between parts of an organisation.

One of the major challenges for CREM is to prove the added value of real estate to the corporation. Departments have to prove that they are at least as competitive as outside service providers. Although cost efficiency is often regarded as being the most important competitive advantage, other elements of added value might prove to be at least as important. From elaborations with regard to the added value of corporate headquarters and interviews with experts an overview has been made of capabilities needed to manage the corporate real estate portfolio. All of the products and services display some kind of added value with regard to managing a corporation’s real estate portfolio. The list of elements of added value of CREM in Section 4.5 has been used together with the classification of the corporate characteristics to determine the added value of corporate real estate management and to pinpoint dependencies between the characteristics of corporations and the nature of that added value.

Based on the theories regarding synergy and organisational studies in general, characteristics have been identified for the multinational corporation in general and on the role of staff and supporting departments. A framework of both strategy and structure related variables was established to analyse all of the case studies. A brief
summary of the background of all of the corporate cases is presented in Chapter 5. The corporations analysed in this thesis are ABN AMRO, ING Group, Royal Ahold, Vendex International, Unilever NV, Royal Philips Electronics, AKZO Nobel and Royal Dutch/Shell.

**Analysing role and position**

Chapter 6, the first of two analytical chapters, presents an overview of the evolution of the role and position of real estate department in the corporate cases. From a review of the cases a number of patterns have been distinguished.

During the 20th century the profession of managing corporate real estate has undergone a drastic evolution. Within all of the corporations analysed in this study, the discipline evolved from being a side-issue dealt with by the founder/director to a professional discipline either supported by in-house staff or outsourced to service providers. While real estate resources and capabilities were originally controlled and managed by each corporation individually, in the past few decades dozens of alternatives have created the opportunity of delegating activities and responsibilities to parties outside the corporation.

Given the continuous need for accommodation and the absence of a professional real estate market, corporations were forced to undertake these activities and manage their resources themselves. The continuous need for buildings and land, combined with the desire to control the availability of skilled labour, led to the foundation of specialist departments. At their foundation the size and scale of activities of corporations were relatively small, and decisions on real estate matters were made by the founder/director. To support corporate expansion and the consequent need for accommodation, corporations established real estate departments. While international activities were initially supported by central staff and supporting departments, over time local subsidiaries were established. In line with the delegation of operational authority, operational activities concerning real estate were often taken care of at the local level; real estate departments at corporate headquarters only continued to be responsible for financial and long-term strategic issues.

The position of real estate departments in most of the corporations evolved from being part of the corporate centre – or in some of the industrial corporations even a separate division – to becoming part of domestic operations. As a result of transformation of the corporate structure, and the consequent abandonment of a traditional, centralised organisation, it became difficult to continue to align activities on a national and horizontal basis. Although corporations initially continue to enforce alignment, decentralisation of operational authority often brought an end to horizontal and vertical synergy.
The phases in the transition and transformation of corporate strategies and structure can be described in a manner that parallels stages in the product life cycle. While corporations in their pioneering stage are primarily concerned with survival and growth in market share, transition towards the growth, maturity and, especially, the decline stages affect the role of real estate. Within all the corporate cases analysed, initiatives related to real estate began during the growth phase of the corporations.

As corporations pass into the maturity stage of their development the real estate strategy evolves from a mere focus on facilitating business processes to one of capturing the value of real estate or of cost minimisation. The decline stage in the life cycle is often characterised by radical change or crises. Almost every one of the corporations analysed has had to face the effects of mergers, acquisitions, and/or financial crises. The growth and expansion of the large majority has been enabled by taking over other firms, either to provide an entrance to new markets or to create economies of scale. Especially during crises, real estate appears to play an important role.

While these transitions occur in both services and industrial corporations, there is a clear difference between the two in the timing of the events. In terms of both their growth and internationalisation, developments took place later in the services corporations. Besides differences in timing, their real estate activities are distinctly different. Industrial corporations are often characterised by the dominant influence of machinery and installations on their operations, resulting in a close relation between the construction of industrial buildings and the development and design of installations.

**Pinpointing added value**

The most difficult part of my research has perhaps been the efforts made to pinpoint the added value of corporate real estate management. All of the corporate cases were reviewed upon the presence of value adding products and services of CREM. From the cases it became apparent that there are differences between the degree to which the various elements of added value are implemented. A clear distinction is – in addition – displayed between both the number and nature of the elements of added value found within each of the eight corporations. Another clear finding is the fact that services corporations display a greater affinity for managing their real estate portfolio than most industrial corporations. Of all of the elements of added value, 'knowledge of business and management processes' and 'collection of scarce expertise' are indicated in most of the corporations. Implementation of elements such as 'confidentiality and availability of information' and 'speed of actions and transactions' is only scarcely recognised.
The geographical and functional diversity of the real estate portfolio appears to be an important limitation in the use and management of real estate and real estate services. As is also the case for achieving economies of scale, the position of the real estate department within the corporation, as a result of the level of centralisation and concentration, generally determines the degree to which this alignment can be achieved. To support the general needs of the corporation and operating companies, awareness is needed of their specific demands to real estate. Increasing geographical and product diversity, and decentralisation of operational authority, challenge the practical implementation of the ‘knowledge’ element of added value. Increasing diversity makes it difficult to be aware of all the details of the specific business and management processes.

Increasing geographical spread of corporations also results in an increasing involvement of third parties to provide local expertise. In response to this need for support, real estate service providers are increasingly creating global networks. Outsiders can also provide simple technical or financial knowledge. The availability of information is most essential when drastic actions have to be taken, as during financial crises or when mergers and acquisitions are made. To be able to act swiftly, actors often need information on the content and value of the corporate real estate portfolio.

Of all of the elements of added value, the provision of high quality services at competitive prices is probably the most obvious one. Given that in-house departments have to compete with outsiders, price becomes a critical element. The presence of ‘providing high quality services at competitive prices’ as an element of added value is however closely related to the presence of an in-house corporate real estate department. While all the services corporations value this element, only one of the industrial corporations shares this affection. Although providing high quality services at competitive prices is an important element of added value, the advantage is often created by the presence of other elements.

Another element of added value is speed of actions and transactions. Speed, or rather the lack of it, can be a bottleneck for corporate expansion. The time needed to handle real estate issues is often underestimated by operating companies. In-house departments might, however, be able to operate more quickly due to advantages created from other elements of added value, such as networks and knowledge of business and management processes. A pro-active corporate real estate strategy and anticipation can support speedy actions. The ability to prepare the corporation for the future requires staff and supporting departments to be aware of the strategy to be fulfilled. Anticipation of future directions and events enables the corporation to respond more quickly and helps operating companies in keeping ahead of the competition.

Within all of the corporations analysed, real estate departments were, if present, actively involved in the decision-making process. Corporations in which an advisory role
was assigned to CREM displayed a stronger affiliation with 'knowledge of management and business processes' and 'scarce expertise' than others did. Corporations favouring strategic planning also tend to value the presence of an in-house collection of scarce expertise. Scarce expertise is also an element valued by corporations that employ a coordinated approach to managing their corporate real estate portfolio and focus strongly on the influence of linkage and internal alignment of activities.

There is a clear relation between the structure of a corporation, the position of the CRE department – as a product of the corporate structure – and the presence of elements of added value. Coordination of real estate activities, either through a corporate centre or national organisations, it is clearly a prerequisite for obtaining added value. Corporations characterised by highly diversified activities often have more difficulty in enforcing corporate-wide coordination. Corporations characterised by a market-oriented structure, such as most of the services corporations, display a strong impact of 'alignment of use', and 'high-quality services'.

Services corporations 'outperform' industrial corporations in almost every element of added value. Services corporations show, in general, more than industrial corporations a greater coordination of real estate activities, both in products and services and in advising on real estate investments and decisions (level of centralisation). Services corporations also tend to favour formal networks, and strategy and anticipation. The only element in which industrial corporations outclass services corporations is in obtaining economies of scale.

The elaboration on the elements of added value displayed a close relation between several of the characteristics discussed. A distinction emerges between elements focusing on sharing of resources and elements focusing on transferring capabilities. From a review of the cases, resource sharing appears to fit into market-oriented organisations, supported by national organisations or corporate centres. Attempts to coordinate both real estate and real estate activities are to be found mainly with corporations in the services sector.

Lessons and predictions

From the analysis of the cases, a number of lessons can be learnt. There are four stakeholders who might profit from the results of this research: board of directors, corporate real estate managers, service providers and academics.

The most important lesson for members of boards of directors is probably that the potential contribution of CREM to corporate performance can be considerable. The contribution can for example be realised through an anticipatory role or through improving alignment of resources and capabilities. Functional or regional alignment of
real estate activities can prove to be of value to a corporation. The establishment or continued presence of an in-house knowledge centre on corporate real estate provides opportunities to benefit more from the potential financial and strategic value of real estate.

Transformations and transitions in the corporate setting, combined with the continuous professionalisation of the real estate market, not only confuse the corporate perspective but have also affected the focus of those in corporate real estate departments. Departments have often undergone drastic staff reductions due to the corporate strategy of outsourcing supporting disciplines. As a result of transformations in structure and strategies during the corporate life cycle, different skills and capabilities of staff and supporting departments are required. The new function of staff and support departments tends to focus on achieving a critical mass within the firm in order to control and mediate between a web of internal and external sources of real estate knowledge and activities. Bundling of real estate activities in a corporate centre provides real estate managers with the opportunity to profit from economies of scale both in the acquisition of products and services and in the in-house use of resources and capabilities.

The globalisation of corporations has increased the involvement of service providers. It is hard – if not impossible – for a corporation to maintain up-to-date knowledge of real estate markets in numerous countries and regions all over the world. Aligning in-house activities with global networks of service providers opens up opportunities for service providers and real estate investors. In order to provide corporations those service and products needed, service providers need to be more aware of those issues than is currently the case.

The most important lesson for the academic audience is the fact that the majority of research on real estate does not include the impact of the end-user of the real estate. Research on CREM is mostly limited to surveys describing its current status. Insight into the arguments underlying the current status, and, consequently, knowledge to help others from making similar ‘mistakes’, is lacking. So far, most studies in real estate management have focused on CREM as a separate discipline, regarding the corporate setting as a mere black box. Nevertheless, the impact of transitions and transformations in corporate structure and strategies can no longer be regarded as merely a marginal contingency.

Besides offering lessons to be learnt, the outcomes of this research also provide options to predicting ‘future’ transitions and transformations. Based on the events taking place in the various corporate cases, trends can be described in the evolution of CREM. In the last couple of years an increasing number of corporations have established a resources or service division, in most cases to increase focus on horizontal synergy, particularly in sales and management. Several initiatives have been taken to coordinate activities on a
regional scale, e.g. Europe, the Americas. The tendency towards global or regional coordination, regrouping of geographical organisations and of real estate will increase in the future. Clustering is often complemented by global coordination. This does not necessarily mean that all activities will again be concentrated at or near the corporate headquarters, but that related activities will at least be coordinated on a global or regional scale.

Alignment of activities can also be created through functional clustering of activities. Whereas geographical clustering focuses on alignment of activities through procurement or optimisation of activities, functional clustering aims to bundle various related activities in resource or service divisions. The clustering of infrastructure-related – human resource management, information technology and corporate real estate – activities in an infrastructure, resource or service division can currently be seen in several of the case corporations. For historic and evolutionary reasons, closely related activities are spread over the corporate organisation.

The main role of a corporate knowledge centre for corporate real estate will increasingly be the external coordination of alliances with service providers and the internal alignment of real estate resources and capabilities. Operating companies and the corporation in general should be able to make a deliberate choice between using in-house departments or external service providers on the basis of the best service delivered.

Almost every corporation I analysed in this research is changing its corporate real estate function. While some corporations are in the process of reinstating corporate-wide coordination of resources and capabilities, others are taking the next step towards the integration and alignment of various supporting disciplines. Although all of the corporations analysed in this research are based in the Netherlands, all of them are truly international corporations. Given the international scope of the cases I believe that the findings of this research are generally applicable.

Neglecting the value locked up in real estate results in corporations missing competitive advantage. Alignment and coordination of internal resources and capabilities to improve corporate performance can and should no longer be regarded as an option but as a necessity; it’s the entry ticket to the next millennium’s competitive market.
Introductie

De eerste activiteiten op het gebied van professioneel vastgoedbeheer zijn terug te voeren tot het begin van industriële en commerciële activiteiten. Ondanks deze lange geschiedenis staat het vakgebied zowel wetenschappelijk als beroepsmatig nog steeds in de kinderschoenen. Lange tijd was de (wetenschappelijke) belangstelling voor gebouwen voornamelijk afkomstig uit de hoek van de architectuur of vastgoeddeconomie. Sinds de jaren tachtig is er een groeiende belangstelling waar te nemen vanuit de hoek van de eindgebruiker. Hoewel de aandacht voor corporate real estate management (CREM) in de afgelopen jaren is toegenomen, is het onderzoek veelal beschrijvend van aard. Het merendeel van het onderzoek is bovendien gebaseerd op Noord-Amerikaanse succesverhalen. De houding van ondernemingen ten aanzien van vastgoed en de organisatorische inbedding van de vastgoedafdeling komen slechts zelden onder de aandacht.

Door de veranderende relaties tussen hoofdkantoor en operationele business units en de professionalisering van de vastgoedmarkt is de traditionele rol en positie van vastgoedafdelingen onder druk zijn komen te staan. In vroegere decennia beschikten vele ondernemingen – ondanks het feit dat de hoofdactiviteiten van de onderneming niet in de vastgoedsector lagen– over grote ingenieurs- en architectenafdelingen soms met meer dan 1000 werknemers. Vastgoedafdelingen werden samengevoegd, opgenomen in andere ondersteunende eenheden of kregen anderszins een nieuwe rol. In tegenstelling tot de vanouds vertrouwde positie van 'monopolist' moeten ondersteunende afdelingen tegenwoordig concurreren met externe dienstverleners en worden ze 'gedwongen' om hun meerwaarde voor de onderneming duidelijk herkenbaar te maken.

De afwezigheid van onderzoek inzake de rol en positie van vastgoedafdelingen en bovenal de toenemende praktische relevantie van het onderwerp zijn de belangrijkste argumenten voor dit onderzoek. De doelstellingen van dit onderzoek luiden als volgt:
Inzicht verkrijgen in de evolutie van corporate real estate management in relatie tot verschuivingen en veranderingen in de strategie en structuur van multinationale ondernemingen.

Inzicht verkrijgen in de toegevoegde waarde van corporate real estate management en het aangeven hoe de aard van de toegevoegde waarde samenhangt met organisatie karakteristieken.

Om de relatie tussen de kenmerken van multinationale ondernemingen en de rol en positie van vastgoedafdelingen te analyseren is een acht tal cases grondig bestudeerd. Alle bestudeerde ondernemingen zijn opgericht rond het begin van de 20ste eeuw en zijn uitgegroeid tot multinationale ondernemingen. De keuze voor multinationale ondernemingen is gebaseerd op de verwachte invloed van de geografische diversiteit. Elk van de onderzochte ondernemingen heeft bovendien in de loop van de tijd te maken gehad met de gevolgen van overnames, fusies of financiële problemen. Informatie over elk van de ondernemingen is onder meer afkomstig uit bedrijfsarchieven, interviews met (ex-)medewerkers, jaarverslagen en kranten- en tijdschriftartikelen. Na de inleiding wordt in hoofdstuk 2 en 3 een beeld gegeven van de twee onderzoeks domeinen waarbinnen dit onderzoek plaats vindt.

Het onderzoeksgebied

Het eerste onderzoeks domein dat een rol speelt in dit onderzoek is de onderneming. Gezien het feit dat de vastgoedafdeling deel uit maakt van de onderneming en het feit dat de groei en ontwikkeling van de onderneming van grote invloed is op de behoefte aan vastgoed, is een groot aantal ondzoeksvariabelen op ondernemingsniveau in het begin van deze eeuw opgereden: stelde weinig eisen aan de structuur van de onderneming. De omvang en schaal van de activiteiten van ondernemingen waren bovendien vaak beperkt tot één enkel product of markt; veelal binnen Nederland. De organisatie van de onderneming kan worden omschreven als een platte, centraal geleide organisatie. De ondernemings strategie was voornamelijk gericht op continuïteit en op uitbreiden. In de loop van de tijd zijn functioneel georganiseerde en centraal geleide ondernemingen uitgegroeid tot decentrale organisaties met veelal een grote diversiteit aan bedrijfsactiviteiten. Verschuivingen in de structuur van de onderneming en zodoende in de balans tussen synergie en autonomie blijken van grote invloed te zijn op de rol en positie van staf en ondersteunende afdelingen.

Naast de invloed van de onderneming speelt ook de algemene kijk op vastgoed een belangrijke rol in dit onderzoek. Hoofdstuk 3 geeft een overzicht van de ontwikkeling van industrieel en commercieel vastgoed en van het vakgebied vastgoedbeheer. Lange tijd werden gebouwen voornamelijk aangewend voor het huisvesten van mensen en hun dagelijkse activiteiten of om de macht van de opdrachtgevers uit te stralen. De snelle
groei van industriële en commerciële activiteiten in het begin van de 20e eeuw leidde tot een voortdurende behoefte aan huisvesting. Als reactie op de voortdurende behoefte aan huisvesting besloten vele ondernemingen tot de oprichting van aparte vastgoedafdelingen.

Tot ver na de Tweede Wereldoorlog werd het merendeel van de vastgoed activiteiten gecontroleerd vanuit het hoofdkantoor in Nederland. De belangrijkste taken van de vastgoedafdeling bestonden uit het voldoen aan de continue behoefte van de onderneming aan nieuwe huisvesting. De voortdurende groei van de bedrijfsactiviteiten en de toenemende internationale spreiding van de activiteiten leidden tot een groeiende diversiteit in de aard en ligging van het ondernemingsvastgoed. In reactie op de groei van de onderneming begonnen ondernemingen activiteiten en verantwoordelijkheden te decentraliseren vanuit het hoofdkantoor naar operationele bedrijfsonderdelen en regionale/nationale ondersteunende organisaties. De professionalisering van de Nederlandse vastgoedmarkt vanaf de jaren '60 verminderde daarnaast de noodzaak voor ondernemingen om vastgoed en vastgoedactiviteiten in eigen beheer te houden.

De sterk gestegen kosten van huisvesting en de veranderende behoefte aan huisvesting in de jaren '70 hebben de aandacht voor het beheer van vastgoed nieuw leven in geblazen. De economische recessie in het begin van de jaren tachtig zorgde daarnaast voor een toenemende druk op staf- en ondersteunende afdelingen. Onder druk van trends als back-to-core-business, downsizing, lean-production, outsourcing, en rightsizing, voelden vele ondernemingen zich genoodzaakt tot drastische reorganisaties. Vaak gingen reorganisaties samen met een reductie of verplaatsing van arbeidskrachten en daarmee samenhangend een herstructurering van vastgoedportefeuilles. De leegstand van vastgoed en de daarmee samenhangende daling in de huren resulteerden bovendien in een afname van zowel de opbrengsten even als van het rendement op het geïnvesteerd vermogen in de bedrijfgebouwen en terreinen.

Als reactie op de veranderingen stellen ondernemingen meer eisen aan het management van vastgoed. Vastgoed dient op een zelfde professionele wijze te worden gemanaged als de vier traditionele bedrijfsmiddelen: personeel, financiën, technologie en informatie. In plaats van enkel nadruk te leggen op het maximaliseren van het rendement op investeringen in vastgoed of op de technische toestand van gebouwen, dienen vastgoedafdelingen meer ten dienste te staan van de primaire bedrijfssprocessen van een onderneming. Van vastgoedafdelingen wordt verwacht dat zij een bijdrage leveren door het creëren van een maximale toegevoegde waarde voor deze primaire bedrijfssprocessen.

Op zoek naar een onderzoeksmodel

Gezien de doelstellingen van dit onderzoek en de aard van beide onderzoeksdoelstellingen is een belangrijke rol weggelegd voor strategisch management. Tot aan het begin van de
jaren 80 werd het vakgebied strategisch management gekenmerkt door een focus op de externe omgeving van een onderneming. In navolging van het werk van Michael Porter en Henry Mintzberg was de aandacht voornamelijk gericht op de omgevingstheorie. Aan het eind van de jaren tachtig is er een duidelijke verschuiving waarneembaar in de richting van het optimaal benutten van interne middelen en vaardigheden. De meest bekende uitingen van deze nieuwe benadering zijn back-to-core-business en core-competence.

Een van de theoretische principes die ten grondslag liggen aan de veranderende kijk op de strategievorming binnen een onderneming is de resource-based view. De resource-based view benadrukt het belang van bedrijfsmiddelen en vaardigheden. Synergie – een van de management concepten die zijn voortgekomen uit het resource-based denken – benadrukt de voordelen die is te behalen door schaalvoordelen en snelheid te combineren met (administratieve) afstemming. Synergie focust op de coördineren van bestaande structuren en op de wijze waarop managers de onderlinge relaties tussen bedrijfsonderdelen kunnen optimaliseren. In het verlengde van de resource-based view kan dan ook worden gesteld dat vastgoed en het actief manage van een vastgoedportefeuille een belangrijke bijdrage kan leveren aan de prestaties van een onderneming.

Als gevolg van het streven om bedrijfsactiviteiten te beperken tot de kerntaken komen staf en ondersteunende afdelingen – zoals CREM – echter onder druk te staan. Van vastgoedafdelingen wordt verwacht dat zij niet onder doen voor marktpartijen. Hoewel het reduceren van kosten als een van de belangrijkste bijdragen van vastgoed wordt gezien, zijn er andere elementen van toegevoegde waarde aan te geven die minstens een even grote bijdrage kunnen leveren.

Op basis van literatuur en interviews is vervolgens een overzicht samengesteld van middelen en vaardigheden die noodzakelijk worden geacht om een vastgoedportefeuille te managen. Aan de hand van literatuur op het gebied van organisatiekunde, strategisch management en in het bijzonder synergie, is een onderzoeksmodel tot stand gekomen dat als leidraad fungeert voor het analyseren van de cases. In hoofdstuk 5 is een korte beschrijving gegeven van elk van de onderzochte cases: ABN AMRO, ING Groep, Koninklijke Ahold, Vendex International, Unilever NV, Koninklijke Philips Electronics, AKZO Nobel en Royal Dutch/ Shell.

**Analyse van rol en positie**

In hoofdstuk 6, het eerste van twee analyserende hoofdstukken, wordt aan de hand van de casestudies een beeld geschetst van de ontwikkeling van de rol en positie van vastgoedafdelingen. De analyses van de cases laten een aantal duidelijk herkenbare patronen zien. Zo laten alle bestudeerde ondernemingen een ontwikkeling zien waarbij vastgoed evolueert van een nevenactiviteit van de eigenaar/directeur tot een staf of
ondersteunende afdeling, al dan niet aangevuld met diensten van derden. Terwijl een onderneming lange tijd alle vastgoedactiviteiten en bezittingen noodzakelijkerwijs in eigen beheer had, hebben ondernemingen in de afgelopen decennia mogelijkheden te over gekregen om activiteiten en verantwoordelijkheden uit te besteden aan derden.

Ten tijde van de oprichting waren ondernemingen veelal klein van schaal en beslissingen met betrekking tot vastgoed werden genomen door de directeur/oprichter. Ter ondersteuning van de groei van de onderneming en de daaruit voortvloeiende behoefte aan huisvesting besloten, ondernemingen tot de oprichting van speciaal daar toe uitgeruste afdelingen. Internationale activiteiten werden in eerste instantie ondersteund door centrale staf en ondersteunende afdelingen. In de loop van de tijd werden locale vestigingen van de centrale vastgoedafdeling opgericht ter ondersteuning van locale bedrijfsonderdelen. Parallel aan het delegeren van operationele verantwoordelijkheden werden ook verantwoordelijkheden en activiteiten met betrekking tot vastgoed gedelegeerd naar operationele bedrijfsonderdelen. Centrale vastgoedafdelingen bleven voornamelijk betrokken bij financiële en lange termijn plannen en beslissingen.

De positie van vastgoedafdelingen is in de meeste ondernemingen geëvolueerd van een stafafdeling op het hoofdkantoor – in een enkele industriële onderneming zelf een aparte divisie – tot een onderdeel van nationale ondersteunende organisaties. Met het loslaten van de traditionele, centraal geleide organisatie, wordt het lastiger om activiteiten binnen een onderneming op elkaar af te stemmen. Decentralisatie heeft in veel ondernemingen geleid tot een vermindering van de mogelijkheden tot het realiseren van verticale en horizontale synergie.

De verschillende fasen in de ontwikkeling van de structuur en strategieën van ondernemingen kunnen worden beschreven aan de hand van de product levenscyclus. Tijdens de verschillende levensfasen van een onderneming – pionier, groei, volwassenheid en verval – verandert de behoefte aan vastgoed en de daarmee samenhangende rol en positie van de vastgoedafdeling. In alle bestudeerde ondernemingen hebben de eerste initiatieven met betrekking tot professioneel vastgoed plaatsgevonden in de groeifase van de onderneming. De overgang van de groei- naar de volwassenheidsfase gaat in veel gevallen gepaard met een verschuiving in de aandacht voor vastgoed van een focus op het faciliteren van bedrijfsprocessen naar een focus op waardevermeerdering en kostenreductie. De vervalfase wordt gekenmerkt door drastische wijzigingen en crisisen. Bijna iedere onderneming in dit onderzoek heeft de gevolgen ondervonden van fusies, overnames en financiële crises. Vastgoed blijkt met name in deze fase een belangrijke rol te kunnen spelen. Hoewel de bovenstaande verschuivingen zowel in dienstverlenende als industriële ondernemingen plaats hebben gevonden, zijn er ook verschillen waarneembaar. Naar groepatroon en tempo van internationalisatie, lopen dienstverlenende ondernemingen
achter op industriële ondernemingen. Behalve verschillen in de timing zijn er ook duidelijke verschillen in de aard van de vastgoedactiviteiten.

**Pinpointing added value**

De voortdurende behoefte aan huisvesting en de wens van directies om zicht te houden op vastgoedactiviteiten waren in het verleden de belangrijkste drijfveren voor de oprichting van een vastgoedafdeling. Veel van de traditionele argumenten zijn vandaag de dag niet meer van toepassing.

Het krijgen van inzicht in de toegevoegde waarde van CREM was een van de meest moeilijke onderdelen van dit onderzoek. Op basis van de analyses van de cases blijkt er een duidelijk verschil te zijn in de mate waarin de verschillende vormen van toegevoegde waarde worden aangetroffen. Van alle vormen van toegevoegde waarde zijn ‘kennis van bedrijfs- en managementprocessen’ en ‘deskundigheid van zaken’ het meest herkenbaar. Toepassing van ‘vertrouwelijkheid en beschikbaarheid van informatie’ en ‘snelleheid van handelen’ worden slechts zelden herkend. Er is bovendien een duidelijk verschil in de aard van toegevoegde waarde tussen de verschillende bestudeerde ondernemingen. Zo blijken ondernemingen in de dienstverlenende sector een grotere affiniteit met toegevoegde waarde te hebben dan industriële ondernemingen.

Geografische en functionele diversiteit zijn belangrijke variabelen in het beheer en management van een vastgoedportefeuille. De positie van vastgoedafdelingen – in het bijzonder de mate van centralisatie en concentratie – blijkt van grote invloed te zijn op het tot stand brengen van schaalvoordelen. Om tegemoet te kunnen komen aan de wensen en behoeften van de onderneming is bovendien inzicht vereist in de specifieke behoeften met betrekking tot gebouw en locatie. Het verzamelen van informatie over de vastgoedportefeuille wordt bemoeilijkt door de toenemende diversiteit in bedrijfsactiviteiten – zowel qua geografische spreiding als qua productdiversiteit – en een decentralisatie van operationele bevoegdheden. De toenemende geografische spreiding van de bedrijfsactiviteiten leidt eveneens tot een groeiend gebruik van externe dienstverleners in het aanleveren van locale activiteiten en kennis. De beschikbaarheid van informatie blijkt met name van belang te zijn in tijden waarin snelle acties of belangrijke beslissingen – zoals tijdens financiële crises, reorganisaties of overnames – moeten worden genomen. Om snel te kunnen handelen is actuele informatie gewenst over waarde en opbouw van de vastgoedportefeuille.

Van alle vormen van toegevoegde waarde is ‘kwalitatieve diensten tegen concurrerende prijzen’ wellicht de meest voor de hand liggende. Gezien het feit dat interne vastgoedafdelingen meer en meer moeten concurreren met marktpartijen neemt het belang van deze vorm van toegevoegde waarde toe. Hoewel het een belangrijke uiting
van toegevoegde waarde is, blijkt dat de daadwerkelijke invulling afhankelijk is van de aanwezigheid van andere vormen van toegevoegde waarde.

Een andere vorm van toegevoegde waarde, die ook door marktpartijen kan worden aangeboden, is snelheid van handelen. Snelheid, of eigenlijk gebrek aan snelheid, kan een belemmering vormen in de uitbreiding van bedrijfsactiviteiten. De benodigde tijd om vastgoedactiviteiten ten uitvoer te brengen wordt vaak onderschat. Interne vastgoedafdelingen zijn in staat om sneller te handelen doordat ze terug kunnen vallen op andere vormen van toegevoegde waarde als ‘formele en informele netwerken’ en ‘kennis van bedrijfs- en managementprocessen’.

Een vorm van toegevoegde waarde die een belangrijke bijdrage kan leveren aan toekomstige behoeften met betrekking tot vastgoed is echter wel het hebben van inzicht in de doelen die de onderneming nastreeft. Anticiperen op toekomstige gebeurtenissen stelt de onderneming als geheel in staat om sneller te reageren en tot actie over te gaan en zodoende de concurrentie voor te blijven.

Bij de meeste van de bestudeerde ondernemingen is de vastgoedafdeling betrokken bij de besluitvorming over vastgoedactiviteiten. Ondernemingen waarbinnen de vastgoedafdeling een adviserende rol heeft, laten een grotere voorkeur zien voor toegevoegde waarde op basis van ‘kennis van bedrijfs- en management processen’ en ‘deskundigheid van zaken’ dan andere ondernemingen. Ondernemingen gekenmerkt door een planmatige houding ten opzichte van operationele bedrijfsonderdelen laten een grotere binding zien met ‘deskundigheid van zaken’. Deskundigheid is ook een vorm die sterk gewaardeerd wordt door ondernemingen met een sterke interne coördinatie en afstemming van activiteiten.

Al met al blijkt er een duidelijk relatie tussen de structuur van een onderneming, de positie van de vastgoedafdeling binnen de organisatiestructuur en de herkenbaarheid van vormen van toegevoegde waarde. Coördinatie van vastgoedactiviteiten – op het hoofdkantoor of via nationale ondersteunende organisaties – lijkt een voorwaarde voor het realiseren van toegevoegde waarde door middel van CREM. Het realiseren van wereldwijde coördinatie wordt echter bemoeilijkt door de groeiende diversiteit in de bedrijfsactiviteiten. Ondernemingen die worden gekenmerkt door een marktgeoriënteerde structuur, zoals het merendeel van de dienstverlenende ondernemingen, tonen een sterke voorkeur voor vormen van toegevoegde waarde zoals ‘afstemming van gebruik’ en ‘kwalitatieve diensten’. Dienstverlenende ondernemingen streven, meer dan industriële ondernemingen, naar coördinatie van vastgoedactiviteiten. Daarnaast kennen zij ook een grotere voorkeur voor het gebruik maken van formele netwerken, en ‘strategie en anticiperen’. Bijna elke vorm van toegevoegde waarde is duidelijker herkenbaar in dienstverlenende ondernemingen. De enige vorm van toegevoegde waarde waarin industriële ondernemingen duidelijk uitblikken is het benutten van schaalvoordelen.
De implementatie van de verschillende vormen van toegevoegde waarde beschouwend valt er een tweedeling te maken in soorten toegevoegde waarde. Enerzijds vormen van toegevoegde waarde die gebaseerd zijn op het delen van middelen en anderzijds vormen die gebaseerd zijn op de overdracht van vaardigheden. Marktgereconomeerde ondernemingen blijken een voorkeur te hebben voor het delen van middelen en worden gekekenmerkt door organisaties ondersteund door nationale organisaties of een sterk hoofdkantoor. Actieve pogingen om te komen tot afstemming van het gebruik van vastgoed en vastgoedactiviteiten komen het duidelijkst naar voren in dienstverlenende ondernemingen.

Lessen en voorspellingen

De uitkomsten van dit onderzoek geven aanleiding tot het formuleren van lessen en het doen van uitspraken over toekomstige ontwikkelingen. Met betrekking tot de lessen kunnen verschillende bijdragen worden gemaakt tussen een viertal belanghebbenden: raad van bestuur, vastgoedmanagers, externe dienstverleners en wetenschappers.

De belangrijkste aanbeveling voor leden van Raden van Bestuur is om de strategische en financiële waarde van vastgoed niet te onderschatten. Door te anticiperen op toekomstig gebruik of door het coördineren van inkoop en gebruik van middelen en vaardigheden kan een bijdrage worden geleverd aan het presteren van een onderneming. Functionele of regionale afstemming van vastgoed en vastgoedactiviteiten speelt hierbij een grote rol.

Veranderingen en verschuivingen binnen de onderneming en de professionalisering van de vastgoedmarkt hebben niet alleen geleid tot een drastische reductie van het aantal medewerkers, maar heeft bovendien ook geleid tot wijzigingen in benodigde vaardigheden binnen vastgoedafdelingen. De nieuwe functie van staf en ondersteunende afdelingen heeft niet zo zeer betrekking op de uitvoerende taken, maar meer op het vasthouden van een kritische massa aan kennis ter controle van werkzaamheden door derden en op het intern afstemmen van middelen, vaardigheden en kennis. De bundeling van vastgoedactiviteiten op één plaats binnen een onderneming ondersteunt dit streven. Door coördinatie van activiteiten is het mogelijk om te profiteren van schaalvoordelen zowel bij de inkoop van producten en diensten als in het beheer en management van eigen middelen en vaardigheden.

Internationalisering van de bedrijfsactiviteiten heeft bij veel ondernemingen geleid tot een toename van het gebruik van externe dienstverleners. Het is moeilijk – zo niet onwenselijk – voor een onderneming om te beschikken over up-to-date informatie over een groeiende aantal vastgoedmarkten verspreid over de wereld. Een betere afstemming van interne activiteiten met diensten van externe dienstverleners – beschikken over wereldwijde netwerken – biedt nieuwe mogelijkheden voor zowel ondernemingen als...
dienstverleners. Om deze samenwerking tot een succes te maken dienen externe partijen zich, meer dan tot op heden gebeurt, bewust te worden van de zaken die spelen in ondernemingen.

De belangrijkste bevinding voor wetenschappers is de constatering dat onderzoek op het gebied van vastgoedbeheer zelden ingaat op de invloed van de organisatorische setting waarbinnen vastgoedafdelingen opereren. Daarenboven is het merendeel van het huidige onderzoek beschrijvend van aard.

In dit promotieonderzoek heeft de organisatorische rol en positie van vastgoedafdelingen centraal gestaan. Door de onderneming als uitgangspunt te nemen is dit onderzoek in staat geweest inzicht te krijgen in de oorzaken en argumenten die ten grondslag liggen aan de huidige rol en positie van CREM. Inzicht in de onderliggende argumenten biedt daarenboven mogelijkheden om te leren van in het verleden gemaakte fouten.

Naast het formuleren van lessen kunnen de uitkomsten van dit onderzoek ook dienen als basis voor het doen van uitspraken over de toekomst. Op basis van verschuivingen en veranderingen in de bestuurdere ondernemingen kunnen een aantal verwachtingen worden uitgesproken met betrekking tot ontwikkelingen op het gebied van CREM. In de afgelopen jaren is een aantal ondernemingen overgegaan tot het oprichten van zogenaamde resource of services divisies. In veel gevallen functioneren deze divisies, geënt op het creëren van horizontale synergie, voornamelijk op het gebied van inkoop en beheer. In toenemende mate zullen ondernemingen overgaan tot wereldwijde of regionale coördinatie van activiteiten en kennis. Geografische clustering van activiteiten – bijvoorbeeld Europa, Noord-Amerika, Azië – zal in veel gevallen worden aangevuld met wereldwijde afstemming.

Het afstemmen van activiteiten kan daarnaast ook worden gerealiseerd door functionele clustering van activiteiten. Waar geografische clustering met name focust op gezamenlijke inkoop of het optimaliseren van beheer en gebruik van middelen en vaardigheden, ligt de nadruk bij de functionele clustering op afstemming tussen verschillende vaardigheden. De toenemende afstemming tussen de diverse ondersteunende disciplines – personeel, informatie technologie en vastgoed – is daarvan een voorbeeld.

Organisatorisch zal aan deze clustering inhoud worden gegeven in de vorm van een intern kenniscentrum. De belangrijkste rol van een kenniscentrum zal gericht zijn op de externe coördinatie van allianties met verschillende dienstverlenende bedrijven en op de interne afstemming van vastgoed en de vaardigheden daarmee. Operationele bedrijfsonderdelen en het hoofdkantoor zullen in staat moeten worden gesteld bewuste afwegingen te maken tussen interne vastgoedafdelingen en het gebruik maken van de diensten van derden.
In bijna alle bestudeerde ondernemingen is de rol van CREM aan veranderingen onderhevig, hetzij in de vorm van een ‘herstel’ van ondernemingsbrede afstemming van inkoop en gebruik van middelen en vaardigheden hetzij in de vorm van het integreren van verschillende disciplines.

Hoewel alle ondernemingen in dit onderzoek van Nederlandse origine zijn, zijn alle ondernemingen te beschouwen als ‘global players’. De resultaten van dit onderzoek zijn, gezien de aard van de bestudeerde ondernemingen ook buiten Nederland van toepassing en relevant.

Het negeren van de meerwaarde van vastgoed betekent dat ondernemingen in feite kansen niet optimaal benutten. Afstemming en coördinatie van interne middelen en vaardigheden met als doel het verbeteren van bedrijfsresultaten is niet langer iets vrijblijvends. In toenemende mate zullen ondernemingen CREM beschouwen als een essentieel onderdeel van de bedrijfsvoering. Het benutten van de strategische en financiële waarde van vastgoed kan dan ook worden beschouwd als een toegangsbewijs tot de competitieve markt van de volgende eeuw.
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Appendix 2

List of Interviewees

ABN-AMRO

- Mrs. Drs. L.H.M. Diemel, Corporate Real Estate
- Mr. J.W. van den Bos, Corporate Real Estate
- Mr. T. de Graaf, Historisch archief
- Mr. G. Halfweeg, Corporate Real Estate
- Mr. R.A. Kleijn, Division Personnel & Central Services
- Mr. C.J. Vriesman, Corporate Real Estate
- Mr. A.P. Provoost, Region Breda
- Mr. D. Weijmer, Algemeen Rijksarchief

ING GROEP

- Mr. H.D. Prins, Facility Management Nederland
- Mrs. H. Annink, Facility Management Nederland
- Mr. J.C. Gillis, ING Vastgoed
- Mr. R. de With, ING Vastgoed
- Mrs. I. Elferink, Corporate Communications & Strategy
- Mrs. J.B. Baars-Goettsch, ING Vastgoed

Ahold

- Mr. Reeling Brouwer, former employee Ahold Vastgoed
- Mr. C.J. Schreuder, Ahold Vastgoed
- Mr. H. Hooit, Ahold Vastgoed

Vendex International N.V.

- Mr. N. Veldhuis, former employee Vendex International
- Mr. J.C. Tol, Vendex International BV
- Mr. W.J. Vinke, former employee Vendex International
• Mr. J.W. van de Zande, Van den Bergh Nederland
• Mr. A.J. Bannink, Company Archives
• Mr. J. van der Draaij, Unilever NV
• Mr. L. Geluk, CMEG
• Mr. J. Korving, CMEG
• Mr. T.M.J. Weber, CMEG
• Mr. F.A. Maljers, former Chairman of the Board of Directors

PHILIPS

• Mr. W. de Kleuver, former member of the Board of Management
• Mr. R.A. Storms, Philips Real Estate
• Mr. P. Dijkema, Philips Real Estate
• Mr. K. Vegter, Philips Real Estate
• Mr. A. Otten, Company Archives
• Mr. D. Jenniskens, Corporate Purchasing
• Mr. P. Ball, former UK Group property manager

AKZO NOBEL

• Mr. M.G.J.H.J. van de Ven, AKZO Nobel Engineering
• Mr. J. Roos, Diosynth BV
• Mr. J.D. Wilton, AKZO Nobel Nederland BV
• Mr. J.H. Rigterink, AKZO Nobel NV
Curriculum vitae

Peter Krumm, the author of this book, was born on 27 March 1968 in Tegelen, the Netherlands. In 1992 he obtained a master’s degree at the School of Management studies at the University of Twente, the Netherlands. After fulfilment of his military service he joined the post-graduate course "Design-, Planning- and Management Techniques in Building and the Built Environment" (OPB) at the Stan Ackermans Institute, Eindhoven University of Technology. After successful completion of the course he joined the Department of Real estate & Project Management at the Faculty of Architecture at Delft University of Technology in January 1996. In September 1996 Peter officially started work on his PhD.

As part of his activities at TU Delft, Peter was closely involved in the IDRC research project “Managing Globalisation” and was assigned as European Program Planner for IDRC Europe for a period of one-and-a-half year.

Peter is author or co-author of several articles and papers on corporate real estate management. He is a lecturer both at Delft University of Technology and at the Centre for Investment & Real Estate (SBV) in Amsterdam. Peter holds academic membership of NACORE and is also a member of the American Real Estate Society. He is also a member of the Dutch Society of Property Researchers (VOGON).
a debate is taking place about the raison d'être and positioning of staff.

In consequence many corporations maintained large, centralised departments involved in
have decentralised responsibilities and activities to operating companies.

staff involved with corporate or national management of real estate

studies an analysis is made of the role and position of the corporate real

estate and strategies of multinational corporations. To identify patterns in the

various theories of strategic management were moulded into a research

programme. Real estate departments have to prove their added value to the

added value of today's corporate real estate departments an analysis, based on

the products and services provided by the departments.

Activities have been either delegated to operating companies or outsourced to

suits for real estate departments. Providing mere operational efficiency is

status of in-house knowledge. The role of real estate departments tends to focus

on external parties in order to enable economies of scale both in the acquisition of

house use of resources and capabilities.

A doctoral thesis 'Corporate Real Estate Management in Multinational

Technology. Based on case studies in eight Dutch multinational corporations -

Vendex International, Royal Philips Electronics, Unilever NV. Royal

over view is given of the evolution and added value of corporate real estate